

# FINANCIAL TIMES



Turin agenda  
Shaping the  
EU's future

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World Business Newspaper

## US Supreme Court to decide on English-only law

The US Supreme Court is to decide on the constitutionality of an Arizona law which bars the use of any language other than English by state employees performing official duties. The issue has raised high passions in the election campaign, with both Senator Bob Dole, the presumptive Republican presidential nominee, and his only remaining challenger, conservative commentator Pat Buchanan, arguing that English should be declared America's official language. Page 14

**Murdoch's Star TV targets China:** Rupert Murdoch's Hong Kong-based Star satellite television service unveiled a new broadcast network aimed at improving its access to the Chinese market. However, Beijing officials were sceptical about these latest attempts to secure a stronger presence on the mainland. Page 14: New move to catch that falling Star. Page 6

**Giscard to bow out as UDF leader:** Valéry Giscard d'Estaing, the former French president, was set to bow out as leader of the Union pour La Démocratie Française (UDF), junior partner in the ruling coalition. Page 3

**Daewoo lets Austrian group plan lapse:** A letter of intent signed by Korean car maker Daewoo to buy a majority stake in Steyr-Daimler-Puch, the Austrian vehicle engineering group, has expired without the deal being completed. Page 16

**Inchcape looks to distribution:** Inchcape, the international marketing and services group, could raise more than £300m (£450m) from the sale of its testing services division as part of a strategy of focusing on its distribution businesses. Page 21

**Siemens & Berger, the German construction group, is estimated to have incurred a £30m (£41m) loss on the sale of its 9.7 per cent in Birsle, the UK construction group. Page 21**

**France to reduce border controls:** France is to lift controls on its borders with Spain and Germany, two fellow members of the European Union's Schengen agreement on open borders. Page 3

**Burnah in \$37m disposal to Norsk Burnah:** Castrol, the lubricants, chemicals and fuels group, is selling its service station business in Sweden to Norsk Hydro, Norway's biggest quoted company, for £24m (£37m). Page 30

**Belgacom, the partially-privatised telecommunications company, increased net profits in its final year of full state ownership from £19.7m to £19.7m. Page 15**

**OECD statement on UK jobs:** Unemployment could fall much further in the UK without triggering inflation, the Organisation for Economic Co-operation and Development believes. Page 8

**Compaq Computer, the world's largest personal computer manufacturer, is to launch products designed to break into the rapidly-growing market for computer networking equipment. Page 19**

**Israel hits election campaign trail:** Israel's election campaign hit full stride with members of the governing Labour party voting in American-style primaries to set a list of candidates ahead of the national poll on May 29. Page 14

**South Korea to invest \$13m in N Ireland:** A small South Korean machine tools company is to invest 25.5m (£13m) and create 230 jobs in west Belfast, giving a boost to one of the most economically depressed areas of Northern Ireland. Page 8

**Commerzbank, one of Germany's leading banks, announced a doubling of its operating profits for 1995 to DM1.45bn (£982.9m) and a higher dividend payment of DM13.50 a share despite lower net income because the previous year's result was swollen by asset sales proceeds. Page 16**

**US greenback changes its stripes:** US Treasury secretary Robert Rubin (below) displays the "improved" \$100 bill in New York to mark its first day of issue. New watermarks and other features have been added to the bill in an attempt to make the note more difficult to counterfeit.



By Ronald van de Krol in London

**EU LUNCHTIME RATES:** Federal Funds: 5.1%; 3-month T-bills: 7.0%; Long Bond: 9.2%; Yield: 6.73%.

**OTHER RATES:** BIS 3-mo Liborbank: -0.1%; 1-year: 15.5%; 10-yr: 10.4%; 10-yr Bond: 9.7%; 10-yr: 9.6%; 10-yr: 9.12%.

**NORTH SEA OIL (Argus):** Brent 15-day (May): \$18.74; Tokyo crude: \$18.75.

**STOCK MARKET INDICES:** Dow Jones Ind Av: 5822.69 (+16.25); NASDAQ Composite: 1085.04 (-13.38); Europe and Far East: 2032.63 (+29.48); CAC40: 2516.32 (+4.30); FTSE 100: 3881.9 (-25.21); Nikkei: 20575.44 (+214.52).

## Lesson from Taiwan What China could learn

Martin Wolf, Page 12

## Quiet revolution Squaring the R&D circle

Technology, Page 10

## Today's surveys Slovenia Portuguese banking

Separate sections

TUESDAY MARCH 26 1996

EU move to 'ringfence' mad cow disease set to devastate British farmers

## Brussels bans export of UK beef

By Caroline Southey in Brussels and Alison Maitland and George Parker in London

The European Commission last night set itself on a collision course with the UK government by ordering a total ban on exports of all British beef and products from the EU and to third countries.

The ban will have a devastating effect on the UK's beef industry. Mr Franz Fischler, EU agriculture commissioner, said the aim of the ban, which comes into effect tomorrow, was to "ringfence the problem in the UK and recover confidence in the EU meat market".

Describing the situation as "extremely serious", Mr Fischler said the ban would remain in place "until such time as, on the basis of scientific evidence, we feel we can say the measures can be revoked".

The ban extends to all live animals including calves, meat of slaughtered cattle, sperm, embryos, and all products made from beef and veal where the animals have been slaughtered in the UK.

Beef products such as gelatine and fat used in a wide range of food products would be banned. However, it was unclear last night whether the ban would extend to other food products such as biscuits, yoghurt and ice cream. Even so, the implications for the wider food industry are devastating.

The ban also included products used for medicinal, cosmetic and pharmaceutical purposes.

The commission invited the UK to "continue measures to eliminate the problem", asking it to report back fortnightly to the Commission on what it was doing to ward off bovine spongiform encephalopathy (BSE).

He did not specifically call for the slaughter of British cattle but said the UK "has been called on to discuss with the Commission further proposals to control BSE".

On the question of aid for British farmers, Mr Fischler said a slaughtering campaign would involve "wide-ranging measures" he said.



Where's the beef? Two farmers viewing the poor turnout of beef cattle at an auction in Carlisle, north-west England. At this time last week, before the latest BSE scare, the pens were packed with cows but yesterday only 66 beef cattle and 26 bulls were up for sale

of Agriculture, Fisheries and

Food was last night considering whether it could claim compensation from Brussels for the loss of trade to beef farmers.

Yesterday at a meeting in Downing Street, chaired by Mr

Continued on Page 14  
Government may face lawsuits, Page 9; Consumers put the bite on burgers, Page 12

## Japanese party ends three-week blockade of parliament

By Gerard Baker in Tokyo

Japan's main opposition party agreed yesterday to end a three-week blockade of parliament, clearing the way for approval of the national budget and a controversial plan to bail out the country's bankrupt housing loan companies.

The agreement followed late-night discussions between Mr Ryutaro Hashimoto, prime minister, Mr Ichiro Ozawa, leader of the main opposition New Frontier party, and leaders of the other two parties in the ruling coalition. It came a day after the government won a convincing victory in a by-election in which the budget deadlock had played a central role.

The election had been billed as a crucial test of the government's deeply unpopular plan to spend Yen850m (£6.5bn) bailing out the housing loan companies, or *jasen*, and the NFP had hoped to inflict a damaging defeat.

In the event, the candidate of Mr Hashimoto's ruling Liberal Democratic party, backed by the coalition, won easily, albeit with a much reduced majority. And in spite of the fact that exit polls showed a large majority of voters opposed to the *jasen* bail-out, the government was able to claim victory.

Mr Ozawa told supporters after the meeting that agreement had been reached and it was time to end the three-week sit-in they have staged outside the committee room where the budget debate was due to be held. But he added that the party remained opposed to the government's budget proposals.

The protesters immediately picked up their sleeping bags, food supplies and placards and left in good spirits. But it appears to have been the surprisingly heavy defeat in Sunday's by-election in Gifu prefecture in central Japan that prompted the opposition's change of heart.

The ending of the blockade means a vote can now be held on the bail-out in the lower house of parliament's budget committee.

Backed by a substantial

Continued on Page 14

Fiji to write off loans, Page 15

## Kohl in jobs pledge after state poll success

By Peter Norman in Bonn

Chancellor Helmut Kohl yesterday promised that his ruling coalition would tackle Germany's problems of high unemployment and a shrinking industrial base following its success in Sunday's three-state elections.

Speaking after meeting the leadership of his Christian Democratic Union, Mr Kohl said that his coalition would tackle Germany's problems of high unemployment and a shrinking industrial base following its success in Sunday's three-state elections.

Mr Kohl pledged to push ahead with the government's 50 point programme to boost jobs and growth, agreed at the end of January, "without ifs and buts". He

warned the main opposition Social Democratic party against trying to use its majority in the Bundesrat, the second chamber in Bonn which represents the federal states, to block the government's plans.

state parliaments in Baden-Württemberg, Rhineland-Palatinate and Schleswig-Holstein.

The DAX index of blue chip shares closed at a new record of 2,510.32, up 6.30 points. Government bond prices also advanced, although falling yields yesterday partly reflected the absence of significant inflationary pressures against the background of weak economic activity.

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warned the main opposition Social Democratic party against trying to use its majority in the Bundesrat, the second chamber in Bonn which represents the federal states, to block the government's plans.

Sunday's polls, which also

resulted in a drop in SPD support, were seen as confirming the viability of the Boun coalition and killing speculation that it might have to be replaced by a "grand coalition" of Christian parties and the SPD.

Germany's present economic downturn yesterday prompted the country's powerful industry and trade lobbies to call on the government to build on its election successes and step up action to strengthen the economy and reduce the 1.2m jobless total.

The German federation of industry (BDI), the chambers of industry and commerce and the central association of German craft industries all urged that priority should be given to lowering taxes and non-wage labour costs. Mr Hans-Olaf Henkel, the BDI

president, said companies needed a genuine net reduction in costs.

The FDP also signalled that it would press within the Boun coalition for lower taxes and cuts in public expenditure and Germany's generous social welfare system. Mr Wolfgang Gerhardt, the FDP leader, underlined that his party would refuse to support any increase in value-added tax as a way of solving Germany's

growing public sector deficits.

Mr Oskar Lafontaine, the SPD leader, said yesterday he saw no reason to change his party's policies in spite of losses in support ranging from 4.3 percentage points in Baden-Württemberg to 6.4 percentage points in Schleswig-Holstein.

Kohl to act on jobs, Page 2

Editorial comment, Page 13

## Philips issues profits warning after poor electronics sales

By Ronald van de Krol in London

Philips, Europe's largest producer of consumer electronics, warned yesterday that net profits would fall "substantially" in the first quarter because of poor sales and the slowdown in the computer industry.

The surprise warning was issued by Mr Jan Timmer, company chairman, who blamed a continuing malaise in consumer electronics and a downturn in semiconductor sales - the main motor behind the recovery in Philips' profits in recent years.

Mr Timmer's announcement, delivered to shareholders attending the group's annual meeting, will compound investors' concerns about the state of the consumer electronics market, the maturing consumer personal computer market in some countries, and slower apparent growth in the worldwide semi-

conductor industry. However Philips, whose shares dropped by 11 per cent yesterday after the profit warning, also faces problems of its own. Analysts believe the company must undertake a further rationalisation of its manufacturing operations if it is to be competitive in world markets.

Mr Timmer said there was no need for "panic", but he declined to give further details of the problems the company faced in the first quarter. He also noted that the same quarter in 1995 had been exceptionally good. Figures for the first three months of 1995 will be published on April 24.

The expected decline will hit net profits from normal business operations, which exclude possible extraordinary gains or losses or extraordinary losses associated with restructuring.

Mr Timmer, who is due to retire on October 1, said: "We are not happy with the way the first few months of the year have developed." He said markets in

Europe and North America for consumer electronics - the group's single largest business in terms of sales - remained weak.

At the same time, lower demand from personal computer manufacturers was "negatively affecting" profits in computer monitors and semiconductors.

Computer manufacturers in North America and Germany have recently warned of a slowdown in growth and sales over the Christmas period failed to live up to expectations.

Philips' semiconductors and components sector, which includes computer monitors, accounted for 35.2 per cent of operating profits in 1995, a far greater percentage than its 16.6 per cent share of group turnover.

Consumer electronics, by contrast, performed poorly in 1995, due largely to heavy losses posted by Grundig, the group's German operation.

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EU STOCK MARKET INDICES

EU GOLD

EU DOLLAR

EU STERLING

STOCK MARKET INDICES

EU LUNCHTIME RATES

EU OTHER RATES

EU NORTH SEA OIL (Argus)

EU STOCK MARKET INDICES

EU GOLD

EU DOLLAR

EU STERLING

EU NORTH SEA OIL (Argus)

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EU STOCK MARKET INDICES

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EU NORTH SEA OIL (

## NEWS: EUROPE

Opposition policies fail to sway electorate □ FDP rises after abandoning traditions

## Election setback for Social Democrats

By Judy Dempsey in Berlin

Sunday's election results in three German states were a setback for the opposition Social Democrats (SPD).

They indicated the electorate was neither ready to trust a possible SPD/Green coalition at federal level nor convinced by the policies of Mr Oskar Lafontaine, who took over as party leader last November.

They also showed that the liberal Free Democrats (FDP), the junior partner in the Bonn coalition, had managed to break their cycle of recent electoral defeats with a new strategy – though they were boosted by tactical voting by supporters of Chancellor Helmut Kohl's Christian Democrats (CDU).

In all three states, the FDP promoted itself as the party of low taxation, more deregulation and less bureaucracy, and was re-elected to all three state parliaments. In Baden-Württemberg the FDP leader, Mr Walter Döring, ran an unashamedly pro-

business campaign and won 9.6 per cent of the vote.

"This was a clear signal to continue our policies, especially tax cuts to promote employment," said Mr Guido Westerwelle, the FDP's 33-year-old general secretary, who has sharpened the party's ideological and economic profile. The FDP's traditional commitments to civil liberties and individual rights played no role in the campaign. These have been ceded to the Greens.

The Greens, who were elected in the three states and are now represented in 12 of the 16 states, were partly responsible for the SPD's poor showing.

The SPD lost ground in each of the contests, falling by an average of five percentage points. Ms Heide Simons, the SPD state premier of Schleswig-Holstein, lost her absolute majority and will have to share power with either the Greens or the FDP. She conceded that the recent bickering in the SPD/Green coalition in North-Rhine-Westphalia damaged the

SPD. That coalition is considered a litmus test for a future federal Red-Green government.

But her own pragmatic and tough economic policies, involving cuts in public spending to curb the budget deficit, also lost her votes, particularly among women who switched to the Greens and the CDU.

The SPD's populist campaign, calling for restrictions on the number of *Aussiedler* – ethnic Germans from the former Soviet Union who can settle in Germany – and postponing European monetary union, drew voters away from the

party in Baden-Württemberg to the FDP and the Greens.

Infas, an institute which specialises in monitoring social trends, argued that the Greens were making inroads into an SPD which is unsure about its future economic and social direction and failing to modernise as its traditional industrial/working class base diminishes.

The SPD is also losing blue collar voters to the CDU: Mr Erwin Teufel, the Baden-Württemberg CDU leader, claimed yesterday that his party won 38 per cent of the working

class vote in the state, against 30 per cent for the SPD.

Sunday's results may also show how the middle ground in German politics, once held by the FDP, is being eroded as the FDP moves to the right and the SPD and Greens fight it out for the leftwing vote.

A divided left is grist to Mr Kohl's governing coalition and damaging to the SPD. Ms Kerstin Müller, head of the Green parliamentary group in Bonn, said the SPD's failure during the campaign to support a Red-Green alliance openly as a viable alternative to the Bonn

coalition confirmed that the Social Democrats did not know what they stood for.

Ms Heidegger Wieczorek-Zeul, deputy chairman of the SPD, went further, arguing that the party's recent infighting and weak presentation of its policies had helped boost the Bonn coalition. The SPD, she said, must "fight the government hard and sharpen its own profile to make clear it is the alternative". That task faces Mr Lafontaine, who has less than two years to turn the party around.

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Stockholm planning to press openness on the EU

By Hugh Carnegie in Stockholm

Sweden is to step up its campaign for greater openness within the European Union by proposing that a right of public access to official documents be written into the EU's ground rules at the intergovernmental conference due to start in Italy on Friday.

"Openness and transparency are central to winning public confidence in the EU," said Ms Laila Freivalds, minister for Justice in the Social Democratic government.

Ms Freivalds said Sweden had notified Italy, current holder of the EU presidency, that it wanted the proposal to write the principle of openness into a re-worked Maastricht treaty at the conference agenda.

She said she expected support from other EU countries – notably Denmark, Finland and the Netherlands. She acknowledged there could be difficulties in putting such a principle into practice. But she noted most countries had publicly supported the idea of giving the public easier access to EU institutions and processes.

"If we do not get support, I don't know how all those countries that have declared themselves in favour of openness will explain themselves," Ms Freivalds said in an interview.

The proposal is that the EU should handle the question of openness and transparency much as Sweden has done. The right of access to official documents is written into the Swedish constitution. Every ministry and public office is required to keep a registry of documents which members of the public can scrutinise.

Everything from minor rules and regulations to letters to the prime minister are included. Exceptions are made for areas which are deemed to require secrecy, such as some aspects of foreign relations. But the principle is that all documents are open unless specifically marked secret – not the other way around.

Ms Freivalds said Sweden fully accepted there was a need for secrecy in some EU processes too. Its proposal would also apply only to EU institutions and was not an attempt to impose new rules on individual countries.

"Today it is often the case that classified documents circulate among certain interested parties in Brussels, creating a situation where some may have information to the detriment of others," the minister said.

This creates a picture of a closed, exclusive world where ordinary people feel shut outside the system. If there is no public confidence, it damages the democratic functioning of the institutions. Information is vital for people to be able to make decisions and understand decisions."

Italian parties compete to offer tax reforms

By Andrew Hill in Milan

Mr Silvio Berlusconi, leader of Italy's rightwing electoral alliance, and Mr Romano Prodi, his centre-left counterpart, yesterday vied for the support of shopkeepers and the self-employed by promising reform of Italy's tangled tax system.

But in their first face-to-face meeting of the campaign for the April 21 election, both leaders also conceded that Italy, burdened with debt, would not be able to join a European single currency unless the economic conditions for entry were interpreted flexibly.

The contradiction between a vote-winning promise to cut reform taxes, and the need to clean up Italy's public finances is turning into one of the central issues of the election campaign.

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## Sunday's Land elections in Germany

(figures for previous election in brackets)

	Share of vote %	Number of Seats
CDU	41.3 (39.6)	89 (84)
SPD	25.1 (29.4)	39 (45)
Green	12.1 (8.5)	19 (13)
FDP	9.8 (5.9)	14 (8)
Republican	9.1 (10.9)	14 (15)

	Share of vote %	Number of Seats
RhineLand-Palatinate	39.8 (44.8)	43 (47)
CDU	38.7 (38.7)	41 (40)
FDP	8.9 (8.9)	10 (7)
Green	6.9 (5.5)	7 (7)

	Share of vote %	Number of Seats
Schleswig-Holstein	36.8 (46.2)	33 (45)
CDU	37.2 (33.8)	30 (32)
Green	8.1 (4.9)	6 (6)
FDP	5.7 (5.6)	4 (5)
SSW (Danish minority party)	2.5 (1.9)	2 (1)
DU (far right)	4.3 (6.3)	0 (0)

\*The SSW is almost represented in the Land Landtag even though as share of the vote was less than 5 per cent.

Source: Provisional official results



"Spring has arrived": FDP leader Wolfgang Gerhardt (second from right) celebrates election results with party candidates Rainer Brüderle (left) and Walter Döring (second from left) and secretary general Guido Westerwelle yesterday

## Polls open way for tough decisions on jobs

Bonn has made only limited headway with its 50-point economic programme, writes Peter Norman

**T**he unexpectedly good result for Germany's liberal Free Democrats (FDP) in state elections in Baden-Württemberg, RhineLand-Palatinate and Schleswig-Holstein yesterday raised expectations that Chancellor Helmut Kohl's government in Bonn would at last tackle the country's serious economic problems, symbolised by an unemployment figure of 4.27m.

But if the coalition of Mr Kohl's Christian Democratic Union, its Bavarian Christian Social Union sister party and the FDP is to be truly effective, its representatives in the Bundestag, the lower house of parliament, will have to discover a capacity to take tough decisions that has so far been elusive. The opposition Social Democratic party, which still controls the Bundesrat, the second chamber that represents the states, will also have to be willing to compromise.

It was unclear yesterday

whether the votes on Sunday had prepared the way for more decisive government action on the economy. Mr Oskar Lafontaine, the SPD leader, said the SPD majority in the Bundesrat would judge government bills on their merits but would reject plans, such as those to

Kohl will push ahead 'without more ado'

cut unemployment support, that ran counter to SPD policies. A relaxed Mr Kohl pledged to push ahead with the government programme "without more ado", noting that the SPD-governed states in the Bundesrat often voted against wishes of the national party.

The Bonn government has so far made only limited progress in implementing its 50-point programme of reforms to boost

jobs and restructure the economy that was agreed at the end of January. According to Mr Günter Rexrodt, the economics minister, government decisions are still required before progress can be made on 29 of the 50 points. Nonetheless, he hopes that by the summer these measures will be "on course" for implementation.

The slow progress of government plans to liberalise Germany's restrictive shopping hours highlights the legacy of the coalition partners that must now be overcome. Coalition leaders agreed on a modest extension in shop opening hours last November but the decision immediately ran into opposition among MPs from Mr Kohl's CDU. Although the cabinet agreed in December on a liberalisation bill, parliamentary discussion of the measure was postponed until after Sunday's elections.

The tax bill will be complex.

It will include provisions to encourage new company start-ups, a revenue-neutral

restructuring of corporate taxation, the abolition of wealth tax on companies and a reform of taxes on personal wealth, inheritance and gifts. It must also implement the promised reduction in the solidarity surcharge on income and corporation tax, which helps finance

made to wealth tax by the end of this year. Otherwise it will cease to be legally valid.

The prospect for compromise is not entirely bleak. Even in the pre-election period, there were signs of a possible meeting of minds between Mr Kohl and Mr Lafontaine.

At a press conference in Bonn last week, Mr Kohl avoided direct attacks on Mr Lafontaine and staked out a position that had much to appeal to the SPD. He insisted he was not interested in dismantling the German welfare system, despite the need to reduce industry's non-wage labour costs, and took swipes at those among the rich who evaded taxes.

The bad news is that some elements, such as the removal of the local trading capital tax, have failed to gain parliamentary approval in the past. More positively, politicians at federal and state level are under pressure to agree changes because of rulings by the federal constitutional court, which has specified that changes must be

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J. P. Giscard

## EUROPEAN NEWS DIGEST

**Paris reduces growth forecast**

The French government has reduced its forecast of economic growth for this year to 1.3 per cent, down sharply from the 2.8 per cent predicted in the 1996 budget last year, the economics ministry announced yesterday. But it forecast 2.8 per cent economic growth next year.

The ministry said its forecasts of budget deficits in meeting monetary union criteria remained at 3 per cent of GDP for 1996 and 3 per cent for 1997. Non-farm employment would rise by only 15,000 this year, the ministry said, against the 250,000 expected, and would be up by 215,000 next year. For 1996, household consumption would rise by 1.3 per cent, and business investment by 4.4 per cent (against 8 per cent predicted). The 1996 trade surplus is now put at FF123bn (824bn) instead of FF131bn.

The government is now looking for 2.8 per cent economic growth in 1997, and a trade surplus of FF131bn. *APP, Paris*

**Swedish drink tax cuts urged**

The head of Sweden's state-owned alcohol producer yesterday called for a cut in the country's high taxes on spirits, saying the government risked losing control over consumption because of rising smuggling, illegal production and duty free imports. Mr Egon Jacobsson, chief executive of Vin & Sprit, said Sweden's entry to the European Union meant there must be changes in traditional policies to limit alcohol consumption.

Taxes on spirits such as vodka, whisky and aquavit, the powerful Scandinavian specialty, account for 90 per cent of the price in Sweden, the highest within the EU. "The question is how much longer this can function," Mr Jacobsson said. Smuggling and illegal production now accounted for consumption of some 15m litres a year - half the amount sold through the state-run monopoly. *Hugh Carnegie, Stockholm*

● Sweden had a trade surplus of SKr9.5bn (\$1.4bn) in February, compared with SKr8.8bn in January.

**Swiss outlook 'worrying'**

Swiss finance minister Mr Kaspar Villiger yesterday described as "extremely worrying" the latest budget forecast by the Swiss government, which projects increasing deficits over the next three years.

In its budget outlook for the next four years, the finance ministry said the federal deficit was to rise to SF4.1bn (\$3.4bn) in 1996, SF7.1bn in 1997, and SF9.6bn in 1998, before easing to SF8.1bn in 1999. The 1996 deficit is forecast to be SF7.1bn.

Mr Villiger said that restructuring of the government's finances would be a priority. The government had set the target of achieving a balanced budget by 2001, and restructuring measures would include 2,000 job cuts in the federal administration. *APP, Geneva*

**Hungary gets OECD invitation**

Hungary will be formally invited on Friday to join the Organisation for Economic Co-operation and Development (OECD) as its 27th member, it was announced in Paris yesterday.

An agreement setting out the terms for Hungary's entry will be signed during a ceremony at the organisation's Paris headquarters by Mr Imre Dunai, Hungarian trade and industry minister, and Mr Jean-Claude Paye, the OECD secretary-general.

The formal invitation means that Hungary will be able to attend all OECD meetings, including those of the OECD council, as an observer from Friday. It will become a full member when it deposits its instrument of accession to the OECD Convention with the French foreign ministry, presumably within the next month or so. *APP, Paris*

**ECONOMIC WATCH****Italy's industrial output rises**

Italian industrial production rose by 3.5 per cent in January, compared with January 1995, but average daily output slipped by 4.8 per cent, compared with the previous month. The January 1996 figures, published yesterday by Istat, the national statistics office, were calculated on output over 22 working days, whereas those for January 1995 were based on production over only 21 days. In December output had fallen 2.8 per cent from December 1994, the first decline on this basis for several months. The strongest growth in output came in office equipment, up 19.3 per cent against January 1995, and in machinery and mechanical equipment, up 1.8 per cent. By contrast, output of newspapers, books and magazines slipped by 8.4 per cent, and production of radio, television and telecoms equipment by 5.1 per cent. *Andrew Hill, Milan*

■ Salary rises agreed for more than 2m Spanish workers in 1996 have risen by an average of 3.9 per cent, up from 3.7 per cent a year earlier, according to a report in *El País*. The rises are in line with the government's inflation target of 3.6 per cent for 1996.

## CROSS MONTANA

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28 NOV. - 1 DEC. MALTA

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PHONE: (+41) 22-310.93.95 FAX: (+41) 22-310.99.05 TEL: 425.052 FOND CH

INTERNET: <http://www.forum-cross-montana.ch>**France to reduce border controls**

By David Buchan in Paris

France is to lift controls on its borders with Spain and Germany, two fellow members of the European Union's Schengen agreement on open borders.

But the move, ahead of Friday's Turin summit opening the intergovernmental conference (IGC) on the future of the EU, did not encompass Belgium and Luxembourg, which have open borders with the Netherlands. France has been critical of Dutch drug policies.

In the run-up to Turin, President Jacques Chirac yesterday called on his EU partners to establish "a European social model" more relevant to Europeans' daily preoccupations, ranging from job creation to fighting illegal drugs. His social initiative is to be spelt out in a memorandum to be approved tomorrow by the French cabinet and presented to the summit.

In an article in the leftwing *Libération* newspaper, Mr Chirac said Europe needed not only to revamp its institutions and to put monetary union in place, but also to give itself a big political project to revive citizens' hopes and win their support.

The Gaullist president called for European action to promote jobs by better use of EU funds and by cross-border infrastructure schemes. He also wanted to stop "social dumping" - the lowering of labour conditions and pay - from undermining work and welfare rights.

This is partly to deflect domestic criticism, renewed in recent days by Mr Philippe Séguin, Eurosceptic president of the National Assembly, that the French government is not doing enough to tackle the country's 11.8 per cent unemployment. It also partly reflects France's desire to use the IGC to end the right to opt out of EU social policy won by the UK at Maastricht.

Mr Chirac also called for increased EU co-operation on drugs. Drugs "is an area where nothing can be done efficiently without Europe", he said. Clearly referring to the more tolerant Dutch attitude to drug users, Mr Chirac complained: "It just needs one single country with lax legislation to weaken all our action."

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Ex-president refrains from endorsement of any candidate in leadership poll

**Giscard bows out as UDF leader**

By David Buchan in Paris

**PRESIDENT A LA FRANCE.**

Campaigning for re-election in 1981, when he was defeated by François Mitterrand

1956  
Elected to  
National  
Assembly

1959  
Secretary of State  
for Finance

1962-66, 1969-74  
Minister for Finance  
and Economic  
Affairs

1974-81  
President

1984-89  
National Assembly deputy

1989-93  
Member of the European  
Parliament

1993-  
National Assembly  
deputy

deputy of the National Assembly, where he is still president of the foreign affairs committee. But last year he narrowly failed to displace the socialist mayor of Clermont-Ferrand, the capital of Auvergne.

The war of succession is also in large part over whether a new leader can manage to remedy Mr Giscard d'Estaing's failure to turn the UDF into a more centralised formation to rival the Gaullist movement, reformed as the RPR by Mr Chirac in 1976.

Though it has a small "direct" membership, the UDF is mainly composed of the conservative Republican party, from which Mr Léotard and Mr Madelin both spring, centrists who now call themselves Force Démocratique, and the Radical party which is fielding Mr Rossinot as a candidate.

More of an electoral alliance than a party, the UDF, whose members range from Thatcherites such as Mr Madelin to German-style Christian Democrats, share little ideology in common, apart from a belief in Europe and the merits of regional decentralisation which mark them out from the Gaullists. All three candidates recognise the need for a more coherent UDF, but differ on the pace of reform.

Mr Madelin calls for the UDF to fight the 1996 parliamentary elections as a centralised party, an ambition that has earned the support of Mr Giscard d'Estaing. In addition, Mr Giscard d'Estaing has long had a stormy relationship with Mr Léotard. The latter, partly because he also heads the Republican party, wants more gradual change, leaving the UDF as a federation, while Mr Rossinot's reform timetable lies between the two.

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## NEWS: THE AMERICAS

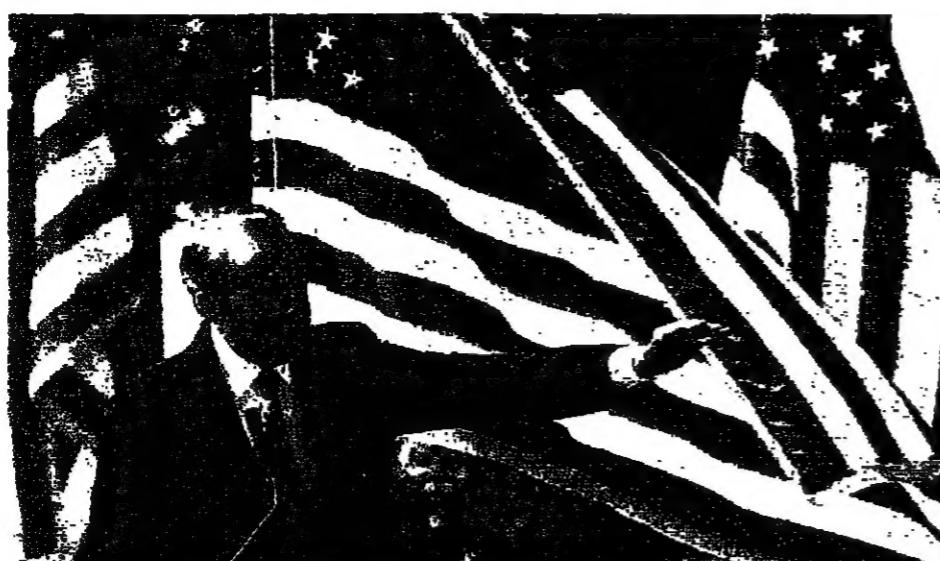
# Dole and the mountain lion going west

Jurek Martin finds the Californian primary vote today outshone by movieland's Oscars

It is an open question whether today's California primary election is more important for Senator Bob Dole or the state's native mountain lion, better known as the cougar. The cougar, the US elections Senate majority leader will surely win the Republican presidential ballot, taking the state's 165 delegates to the party convention and thus passing the 996 total needed to secure the party's nomination. The Los Angeles Times opinion poll last week had him ahead of Mr Pat Buchanan, his remaining challenger by 52.16 per cent.

In past elections, Mr Dole has been known to turn nasty - also the cougar's problem. Classified as a protected species in a 1971 California ballot initiative, it has since taken to attacking joggers and other animals. So, the National Rifle Association has helped put a proposition on today's ballot that would let hunting of it resume.

This proposal, along with three others which seek to control the power of trial lawyers in the state, has generated more immediate passion than the Republican contest. But



Among the faithful: Senator Dole speaking at the Richard M. Nixon Library in California

Mr Dole has chosen sides in a not local issue. This is the California Civil Rights Initiative, likely to be on the ballot in November. This is meant to end government-sponsored affirmative action programmes throughout the state.

Also, Mr Dole continued to urge Mr Buchanan, the conservative commentator, to "join forces and close ranks" for the general election. He also virtually begged Mr Ross Perot, the 1992 independent candidate, not to enter the race and "make it easier for Bill Clinton". Mr Buchanan responded by threatening again to quit the Republican party if its platform did not please his pro-life, blue-collar supporters.

The president has his own potential third-party problem in California. Mr Ralph Nader, veteran consumer activist, is the likely presidential nominee of the Green party. He could easily win, mostly from Mr Clinton. At 10 per cent of the vote in November, Mr Nader has said it was immaterial that his participation could hand the election to the Republicans because Mr Clinton was in thrall to big business.

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California's newest big business, the computer industry, is the main mover behind the three propositions aimed at curbing the influence and income of the legal profession.

The first, likely to fall, would establish no-fault car insurance statewide, thereby reducing the prevalence of damage lawsuits.

The other two, with better chances, would establish the loser-pays principle in securities lawsuits and sharply limit the contingency fees lawyers receive from pursuing legal actions. The aim of both is to discourage "frivolous" suits, which the computer industry now sees as a threat to its creation.

All three borrow, to a degree, from the wide-ranging tort reform proposals of the Contract with America, the Republican manifesto in the 1994 congressional election. These have been whittled down in Congress to narrower securities litigation and product liability bills, but a California vote in their favour could revive the national effort.

Even so, this matter has not raised the level of public interest in the primary beyond the lawns and voter turnout is expected to be near a record low. This would disappoint California officials who moved the primary forward from June in the hope of national attention to the state.

In fact, California received attention with a vengeance last night - but neither Bob Dole nor the cougar could conceivably compete with the film world's Oscar ceremony.

## AMERICAN NEWS DIGEST

## No turning back, insists Menem

President Carlos Menem denied yesterday that Argentina was in danger of returning to the interventionist policies of the past or of implementing "magical and demagogic" measures to confront recession and high unemployment.

Addressing investor concerns that the recent formation of a Labour and Employment Council meant his administration was seeking an accommodation with unions, Mr Menem told bankers at the Inter-American Development Bank's annual meeting that deeper labour reforms were essential. "We need modern, flexible legislation that not only does not frighten off entrepreneurs but gives them incentives to create jobs."

Political pressure is building within Argentina to modify economic policies which some blame for an unemployment rate of 16.3 per cent and continued recession. Mr Domingo Cavallo, economy minister, on Sunday admitted that gross domestic product had contracted by 4.4 per cent last year worse than the grimness predictions.

Mr Menem said the "alarming number of unemployed" in Argentina was "taking a terrible toll on our people". Policy efforts should be concentrated on reducing the costs by small and medium-sized companies, which created the majority of jobs.

David Pilling, Buenos Aires

## Nicotine nasal spray for sale

The US Food and Drug Administration has approved a nicotine nasal spray to help hardcore smokers quit.

The spray is a pump bottle holding 100mg of nicotine that smokers can inhale to ward off cigarette cravings. Pharmacia and Upjohn created the spray but have licensed it to McNeil Pharmaceuticals for sale under the name Nicotrol.

Smokers can already request medical prescriptions for nicotine patches or, from next month, buy nicotine gum without a prescription to help them kick the habit.

But the nasal spray is much more powerful, reaching the bloodstream more quickly than either gum or patch. Scientists last year warned the FDA that it should only be sold with strong warnings that it could be abused.

AP, Washington

## Internet share trades to resume

Spring Street Brewing, a small Manhattan-based brewing company, expects to resume trading its shares over the Internet in about two weeks after it responds to the concerns of US regulators. Last Wednesday the company halted a two-day-old experiment in Internet share trading after the Securities and Exchange Commission asked for a review of the trading scheme by regulators.

SEC officials said their primary concern was that investors would not be sufficiently aware of or adequately protected against the risks of holding Internet-traded shares. They suggested that the company should use an independent transfer agent rather than clear the trades.

Lisa Brennen, New York

## Home sales soar in US

US sales of existing homes rose strongly in February despite higher mortgage rates, the National Association of Realtors said yesterday as the housing industry shook off the impact of bad weather.

Total sales of existing homes climbed 6.5 per cent to a seasonally adjusted annual rate of 3.95m, following a revised January decline of 3.9 per cent to 3.72m. The rebound was significantly stronger than Wall Street forecasts last month of an annual rate of 3.5m.

Reuter, Washington

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Reuter, Washington

## S Africa insurer offers cover for HIV infection

By Mark Ashurst in Johannesburg

The world's first commercial life cover for people infected with the HIV virus has been introduced in South Africa by insurance group Metropolitan Life.

At least 1.5m South Africans are infected with the HIV virus, though 80 per cent have not developed symptoms of AIDS.

The number of policy applicants testing positive for the virus last year was 2 per cent.

Mr Ettam Van Dyk, Metlife's general manager and marketing actuary, said South Africa was a "natural" pioneer of insurance for people with HIV and other previously uninsurable diseases because its financial services sector was the best developed of countries facing an AIDS epidemic.

Mr Morna Cornell, of the South African Aids Consortium, which lobbies on behalf of people with AIDS and which works closely with Metlife, attributed development of the policy to the combination of an epidemic and public pressure on insurance companies.

"It's not an answer for everyone, but we hope that in five years' time, when we have good data, wider cover will be available," she said.

But industry experts cautioned that the flattening in the rate of HIV infection in developed countries could deter insurers in the west from developing similar schemes.

The policy took four years to develop, due largely to concerns over confidentiality and allegations that insurance companies had blacklisted suspected homosexuals.

Cover is restricted to persons aged 15-55 in the asymptomatic stages of HIV infection, defined by the World Bank as stages 1 or 2, when life expectancy is longest. The maximum death benefit is limited to R50,000 (\$12,500).

Monthly premiums start at R125 for R10,000 life cover, compared with an average monthly premium of R10 for other Metlife policies with assurance up to R400,000. The investment value of the policy is designed to exceed the value of the life cover after six to nine years.

## Good harvest helps Uganda trim inflation in February

Inflation fell in Uganda last month to 5.8 per cent on an annual basis from 8.6 per cent in January, the central bank said yesterday. Reuter reports from Kampala.

It credited the decline to lower food prices, spurred by a big harvest, also citing falling commodity prices, pushed down by a drop in fuel prices.

"Major decreases were registered in the prices of fresh food produce, local bottled beer, textiles, petrol and bicycle spare parts," the bank said in a report sent to Reuter. The report added that the bank planned to keep inflation at around 8.0 per cent for the 1995/96 financial year ending on June 30.

The bank acknowledged that commercial bank lending rates remained high at 19 per cent, offered no predictions of future trends.

Foreign exchange purchases in February rose by 15 per cent over the previous month, to a record \$130.17m, up from \$112.96m in January, the bank said. Sales in Uganda's liberalised money market also rose to \$123.63m in February from \$110.13m in January.

"Higher levels of foreign exchange transactions were mainly a result of increased coffee export proceeds in the market," the bank said. Coffee accounts for more than half the country's hard currency inflows.

# IMF urged to do more in monitoring banking

By Stephen Fidler in Buenos Aires

**The International Monetary Fund must assume a more assertive role in monitoring banking systems, to help avoid such destabilising banking crises as those experienced in Latin America over the last two years, according to Mr Lawrence Summers, US Treasury under-secretary.**

He said financial systems were "an area where the IMF has to take on a larger role in the future". The joke that the IMF stands for "It's Mostly Fiscal" - reflecting its historical focus on budgetary matters - should no longer be applicable, he said.

Crises in the banking systems of Argentina, Mexico and Venezuela, and costly bank bail-outs in Brazil, have raised concerns that weak financial systems may be one of the most important Achilles heels of the region's economic reforms.

Mr Summers told the FT in Buenos Aires, where he was at the annual meeting of the Inter-American Development Bank, that the region's banking systems would be high on the agenda of a meeting of western hemisphere finance ministers in New Orleans on May 17-18. This would aim to improve co-operation among bank regulators and enhance international support so as to improve the monitoring of banks. Mexican regulators were already co-operating "closely but informally" with their counterparts in the US, he noted.

Asked about the avoidance of further Mexico-style crises, he said an agreement among governments about the expansion of the general arrangements to borrow was possible in the next few months. It would build on the existing GAB - emergency credit facilities set up in 1982 by major IMF members as an addition to the Fund's normal resources - but probably include new members.

Furthermore, the US economy was in better shape than at any time since John Kennedy was president [in the early 1960s], thereby reducing the likelihood of sharp swings in US interest rates that could affect Latin American economies.

Also, Mr Summers said general surveillance by the IMF of risks to the global financial system had improved, investors now know "the right questions" and governments

having received \$750m of interest at higher rates than the US cost of borrowing.

• The IADB should allow members greater facility to borrow in dollars. Apart from loans under a pilot programme to provide up to \$1bn in dollar loans, which began in May 1994, members have to borrow in a basket of currencies. An expanded dollar window would give countries the currency they often want. It would also have implications for the bank's borrowing programme, requiring it to raise more of its funding through the US dollar bond market.

• Various Caribbean countries are likely to be early beneficiaries of a \$10m debt-reduction allocation by the US Congress. This will allow leverage for greater debt forgiveness by using debt swaps at discounts to face value.

## NEWS: INTERNATIONAL

# Nigeria budget: late but worth waiting for

There is a dark side, of course, writes Paul Adams, but there is something for the bright side

**N**ame a country in Africa, asked a London-based analyst recently, that has a surplus on merchandise trade and current account, a freely traded currency, a stable government and where many of its inhabitants are investing in their local sub-sidiaries. The answer is Nigeria.

The dark side of this glittering coin is high crime, a ramshackle infrastructure, endemic corruption, and a soaring external debt - but the point is made. Africa's most populous nation, pumping out more than 2m barrels of oil a day, and with huge reserves, remains a substantial business opportunity.

And the 1996 budget, presented by the leader of the military regime, General Sani Abacha, was designed to make it even more enticing for would-be investors prepared to take rough with smooth.

Nigerian budgets have long been complex documents, opaque and contradictory, and this year's exercise has proved no exception.

Usually delivered on January 1, it came out nearly two months late, but the private sector took the delay in its stride.

Nigeria's economic managers

continue to be divided between those who argue that, if it or not, the country must return to the doctrine of the World Bank and International Monetary Fund and those who support a form of go-it-alone economic nationalism.

Reach agreement with the Bank and the Fund, say the former, and rescheduling of the country's \$31bn external debt can get under way.

The economic nationalists, however, are far from convinced of the benefits: debt servicing will still not fall below 25-30 per cent of export earnings, and policy will, as they see it, be shaped by outsiders.

In spite of this ideological tug-of-war and the distractions associated with yet another attempt to return the country to civilian rule, four main themes emerge from a budget that deserves close analysis.

The Abacha government is attempting to revive a battered infrastructure and improve social services, curb inflation, improve investment incentives and gradually reduce the role of the state.

It would also lead to renewed pressure on the naira, which has held its value at about N82 to the dollar for more than a year.

What makes the task more difficult - indeed, some would

do this. The explanation for the government's apparent determination to pursue an illogical policy lies in the cost of servicing domestic debt, currently around N350bn, about 10 per cent of GDP.

A bank economist in Lagos says: "The cost of servicing this domestic debt is a major burden on the future generations and is probably the key reason why the government cannot afford to remove the cap on interest rates, and thus continues to tax the savers in this economy."

Although the N17bn budget surplus for this year implies tough fiscal discipline, economists are sceptical.

It is far from certain that the government can resist the temptation to spend two bonanzas: the petroleum fund, which holds at least N30bn, and the proceeds from the sale of government petrodollars at the market rate per cent.

That said, political stability remains the critical unknown.

That sounds cynical but they could have gone backwards."

At the same time, the budget offered reduced taxation rates and valuable tax breaks for big companies that replace plant and equipment, on top of the repeat last year of exchange and investment controls.

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## Labour body sees room for growth without reigniting inflation

## ILO calls for G7 expansion plan

By Robert Taylor, Employment Editor

The world's main industrial countries should co-ordinate a strategy of economic expansion to raise demand and promote job-intensive growth, the International Labour Organisation says in a submission to the governments at the Group of Seven conference to be held in Little France, next week.

The gathering is a follow-up to the jobs summit in Detroit two years ago. The Geneva-based ILO believes "there is room for macroeconomic expansion without necessarily creating an upsurge of inflationary pressures in the current context of low inflation, insufficiency of productive

investment and a persistent backlog of unemployment". The organisation calls for:

• A "

## EU to match offers to open up telecoms

European Union foreign ministers yesterday agreed to make a better offer on opening telecommunications networks in world trade talks if other countries did likewise, Reuters reported from Brussels.

"They have agreed that they will improve the offer to meet the best other offers if it proves to be warranted," an EU diplomat said.

The compromise, papered over differences between ardent liberalisers such as Britain and more conservative states such as Belgium and Spain, which want to preserve limits on foreign ownership.

It also averted a row that the European Commission nearly caused two weeks ago with a draft proposal to improve the EU's liberalisation offer in the World Trade Organisation talks which would have had the effect of removing all restrictions on foreign ownership.

Diplomats said that Spain in particular had argued strongly that the ministers could not commit the government still to be formed in Madrid to anything. Officials were therefore drafting a declaration letting Spain off the hook for the time being.

Belgium's telecommunications minister, Mr Elio Di Rupo, said last week that the EU should not "open its arms" to foreign competitors before they had opened their own

markets. He said Belgium would insist on keeping its 49.9 per cent limit on non-EU ownership of telecoms companies and its restrictions on the number of operators in specific telecoms sectors.

The EU has offered to allow foreign companies to benefit from its internal plan to open all telecoms sectors to competition in most countries by January 1, 1998. But it has come under pressure to do better since the US raised its own bid by agreeing to open up its local telecommunications market.

The governments that are resisting have not necessarily ruled out the possibility of improving the EU's offer later, but see no reason to do so yet, officials said.

Sir Leon Brittan, the trade commissioner, has made it clear in the past that the foreign ownership restrictions should be considered as negotiable.

The telecommunications liberalisation negotiations, involving some 50 countries, are part of the unfinished business from the Uruguay Round of talks under the General Agreement on Tariffs and Trade.

The Geneva-based negotiations have a deadline of April 30, and trade officials have said there is little prospect of extending the time limit if the talks falter at the final stage.

## EU poised to settle rift on S Africa pact

By Caroline Soutby  
in Brussels

EU foreign ministers yesterday were poised to agree a mandate for a wide-ranging trade pact with South Africa, ending four months of internal EU wrangling over the terms of the accord.

Some EU members, notably France and Germany, blocked the draft mandate as it included proposals for the creation of a free trade area (FTA) between South Africa and the EU. It would be the first trade pact to be negotiated under new World Trade Organisation rules on FTAs.

EU member states feared the deal could set difficult precedents for other FTA accords and that opening EU markets to certain South African agricultural products would threaten the Union's agricultural sector.

The accord is likely to continue to provoke controversy as member states have insisted on excluding a range of "sensitive" agricultural products from the free trade aspect of the deal.

Trade officials have warned that the exclusion list, which accounts for 38 per cent of South Africa's agricultural exports, could mean the deal contravenes WTO rules which stipulate FTAs should cover substantially all trade between two parties.

"There is little room for

manoeuvre," an EU official said. "If more products are added to the list during the course of negotiations, we risk being in breach of WTO rules."

A further fear is that South Africa could reject the terms of the deal even before negotiations begin. Pretoria was initially opposed to the agreement including the eventual creation of an FTA, arguing instead that South Africa should be given preferential trade terms offered under the Lomé convention.

Mr Abdul Minty, deputy director general in the South African foreign ministry, said rejection of the accord remained an option. "Such a decision will depend on how restrictive the accord is."

He said South Africa was anxious to stress the agreement was not "simply a question of apples. It is about a wider relationship - South Africa's transition to democracy and its role in conflict prevention in the region".

Britain and Sweden are expected to agree to the mandate reluctantly, insisting the list of excluded products would make it difficult to negotiate a satisfactory agreement compatible with WTO rules. "Britain will want a clear understanding from the Commission that it will have to come back for more concessions if necessary," a UK official said.

## Yamaha in India motorcycle deal

By Shiraz Sidhva  
in New Delhi

Escorts Limited, the flagship company of India's Escorts group, yesterday signed a joint venture agreement with Yamaha Motor of Japan to set up a Rs2.1bn (\$50.2m) manufacturing hub in India to produce motorcycles for domestic and export markets.

The partners will each invest Rs900m in Escorts Yamaha Motor, with the remainder coming in equity. The joint venture will take over the existing motorcycle manufacturing facilities of Escorts' plant at Surajpur in Uttar Pradesh, near Delhi, where the Yamaha RX100 model has been manufactured with technical expertise from Yamaha since 1985.

A new motorcycle model, the 135cc Yamaha RXG, will begin production from April 1.

The larger RXG model will eventually replace the 100cc RX100 model, which does not conform to latest pollution standards.

Escorts will phase out the RX100 in India by July, but

continues to make the model for export to South America and Africa.

Mr Anil Nanda, vice-chairman and managing director of Escorts Ltd and chairman of Escorts Yamaha, said he expected Escorts' 25 per cent share in the Indian two-wheeler market to climb to 35 per cent in the next five years, with plans to sell more than 100,000 units of the new model in the first year.

Other models, including what could be India's first four-stroke motorcycle, would be introduced by 1998.

The company's plans include an increase of more than 20 per cent in turnover, compounded annually, and an annual increase of 25 per cent in export turnover, with an export target of up to 40 per cent of production volume.

Mr Nanda said the companies would co-operate in two other ventures - marketing and research and development.

Yamaha would hold a majority stake in the research and development venture while Escorts would control the marketing venture, Mr Nanda said.

## Vietnam struggles to refine policy on fuel

Vietnamese petrol stations look much like those in Europe. Bunting strung across the forecourt displays the logos of foreign companies such as British Petroleum, Shell and Esso, and attendants in overalls dispense fuel to waiting motorcyclists.

But one thing is missing - none of the foreign companies sells a drop of petrol to Vietnam's consumers. The flags hang as a marketing ploy, anticipating the day when Vietnam will allow foreigners to sell in its potentially huge fuel distribution and retail market.

Vietnam is alone among its neighbours in denying foreigners access to the downstream sector, where fuel consumption is growing at 15-20 per cent a year on the back of burgeoning motorcycle ownership and increasing fuel demand from airlines and industry.

Shell puts oil consumption in Vietnam at 4m tonnes in 1994, reaching 25m tonnes by 2011. All of this will have to be imported until Vietnam builds a refinery.

The move was instigated to enable PetroVietnam to extend its reach from exploration into downstream activities. PetroVietnam has signed 29 contracts with foreign companies on what it sees as a strategic industry is shutting them out. Another reason is reluctance by local monopolies to relinquish a share of the market to foreign players.

"Foreign companies... need some reassurance as to the likelihood of finding acceptance in the main downstream sector. They would appreciate clarification of policy from the government as soon as this is possible," says Mr Howard Gatiss, general manager of Shell Vietnam.

The first hurdle the oil industry must jump is deregulation. Vietnam's socialist principles of maintaining subsidies on utilities present a formidable obstacle to a free market.

Hanoi would have to show some flexibility on this before any foreign company would be willing to invest, and so far the government has shown no sign of even debating such a move.

Another problem is a possible turf war between Petroliex, which dominates the local fuel market, and Petro-Vietnam Processing and Distribution (PVPDC), a company set up by the state energy agency last September to chalk up a feasibility account for the remainder.

Petroliex, with a strong



Despite the increasing demand, foreign companies cannot dispense fuel

inevitable given a competitive challenge from PVPDC and possibly foreign companies is likely to encourage Petroliex to dig in its heels.

PetroVietnam's only hope, foreign oil companies say, is to play the refinery card and hope this will work in the long term. "Whatever national company has a refinery has got one over any other company," says the oil executive.

This is where the question of the refinery is crucial. Despite bluster from the government over its plans for the refinery, oil industry experts doubt it will be up and running by the target date of 2000. Investors have to build the surrounding infrastructure from scratch, even if they are able to find someone willing to finance the project.

Meanwhile, there are worries that crucial decisions on opening up the downstream sector will be postponed until Hanoi sorts out Petroliex's and PetroVietnam's respective roles. This is bound up to an extent with the timetable on the first refinery.

Dr Mr Nguyen Thanh Hai, deputy managing director of PVPDC, says foreign companies could be involved but that the debate over the extent of their involvement has only just started.

Jeremy Grant

## New Promise Unfolds



April 1, 1996

The Bank of Tokyo and The Mitsubishi Bank will merge to form The Bank of Tokyo-Mitsubishi. The same dedication to financial excellence and an expanded worldwide presence.

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## NEWS: ASIA-PACIFIC

Beijing claims success in putting pressure on Lee over reunification

## China praises Taiwan's president

By Tony Walker in Beijing  
and Laura Tyson in Taipei

China displayed an abrupt change of approach yesterday when it appeared to praise President Lee Teng-hui of Taiwan, after spending the past nine months castigating him for his alleged independence tendencies.

The official Xinhua news agency portrayed Mr Lee as having advocated reunification during his successful campaign for a popular mandate through a presidential election last Saturday, although it made plain that it believed Chinese pressure had obliged him to adopt this position.

The struggle carried out in the mainland and overseas against splitism and Taiwan independence had dealt a telling blow to those advocating Taiwan

independence and splitism," Xinhua said. "During the election Lee Teng-hui had to declare time and again that he will seek China's reunification, that he will not pursue Taiwan independence and that after winning the election he will try to improve cross-strait relations."

A senior Taiwanese official charged with shaping the country's policy toward China said, meanwhile, for restoration of contacts between Taipei and rival Beijing to ease tensions.

"We want dialogue, not confrontation... relations of mutual assistance and development," said Mr Chang Keng-yuh, chairman of the cabinet-level Mainland Affairs Council.

Another senior Taiwanese official challenged China to become democratic, dashing the lure of speedy vol-

untary reunification if it were to do so. "As long as China can make up its mind four years from now to elect the president of all China with all the Chinese in Taiwan - that will be the time of the real reunification of China," Mr James Soong, provincial governor, told a rally in southern Taiwan.

Both Taipei and Beijing officially seek eventual reunification, but do not agree on the timing or method. The government spokesman, Mr Jason Hu, yesterday departed for the US to explain Taiwan's post-election political situation and current policy toward China.

In Beijing, a western official said it was "heartening" that China should have decided to "ratchet down" tensions with Taiwan. She said it showed that Beijing was capable of deftness when it realised it

might have been too heavy-handed. China, which concluded military exercises yesterday in the Taiwan Strait, had conducted missile tests and a number of rounds of military exercises in attempts to intimidate voters in the island's first democratic presidential election. Nonetheless, Mr Lee won with 54 per cent of the vote.

Taipei share prices ended flat after an early rally yesterday was eroded by profit-taking. Investors are waiting for more definitive signals as to the future direction of cross-strait relations.

China's surprising about-face on Mr Lee has been accompanied by conciliatory offers of high level meetings across the Taiwan Strait and calls for the speedy conclusion of agreement on direct air, sea and postal links.

A lesson for the Chinese. Page 12

## New move to catch that falling Star

Mr Rupert Murdoch may not have welcomed the advice. Indeed the words from a Chinese official carried an implied criticism of the efforts of his global media group News Corporation to break into the China market.

The message was passed informally to Mr Murdoch last year that "when a giant comes to China, he should tread lightly".

Whether Mr Murdoch and executives of his Hong Kong-based satellite broadcaster Star TV have absorbed this advice is moot as they make fresh efforts to overcome resistance to distribution within China of Star programming.

Star TV's announcement that it was linking up with two Hong Kong-based companies - Today's Asia and China Wise International - to provide a satellite service tailored for the Chinese-language market is the latest in a series of attempts by the Murdoch organisation to strengthen its foothold in China.

But the deal will not of itself deliver for Star access to the coveted subscription cable market in China which remains the holy grail for Mr Murdoch. Star will need mainland partners if it is to secure a share of subscriptions that would come with the officially sanctioned distribution of a cable service re-transmitting Star's satellite-delivered material.

While Star's satellite service claims an audience of 32m homes in China, the response from advertisers has been limp.

Star clearly hopes that in time its new Mandarin Chinese-language service, to be called Phoenix, will be accepted by Beijing for widespread cable distribution; although conspicuously absent from yesterday's announcement was even so much as a hint of any tie-up with mainland organisations such as China Central Television or

Tony Walker examines the latest attempt by Rupert Murdoch to secure a place in the all-important China market for his troubled Asia broadcasting company

**Murdoch: looking for firmer connections**

- Mid-1990s: Proposes establishing media centre for television and print in Beijing's western suburbs, a project that never came off
- 1993 Acquires 63.5 per cent stake in Hong Kong-based Star TV for \$25m
- 1994 Drops BBC World Service Television from Star's satellite broadcast
- Quasi-invests \$15m in production studio with local Chinese television to strengthen Star's presence in China
- 1995 Harper Collins division pays daughter of Chinese leader Deng Xiaoping about \$1m for biography of her father
- Strikes \$5.4m deal with Communist party newspaper People's Daily to establish an electronic publishing and data retrieval business
- 1996 Announces establishment of Phoenix service to beam Chinese language services to the Asian region

the Ministry of Radio, Film and Television capable of delivering such a deal.

Star, which broadcasts Asia-wide, is losing \$80m (£53m) to \$100m annually, and unless it finds a way to crack the crucial China market, prospects are for continuing losses. It is not clear how its deal with the two Hong Kong-based companies would smooth the way for Star in China; although in a murky world of back-door deals and connections such a possibility cannot be ruled out.

Star's partners in Phoenix certainly could not be described as frontline players in regional media. Mr Chan Wing Kee, head of Today's Asia, which will have 45 per cent of the new venture, is referred to in Star TV's press release as managing director of the Yangtzejiang Garment

Manufacturing Company.

Today's Asia's media activities have involved investment in TV production and publishing, including a programme on Deng Xiaoping and an eight-volume pictorial history of China. Mr Chan is a member of the 150-member Preparatory Committee established by Beijing to oversee the handing over of Hong Kong to Chinese sovereignty.

The Phoenix deal, which will involve the establishment of three Chinese-language channels to broadcast sport, films and popular entertainment as a means of raising Star's profile in China, smacks of News Corp's somewhat scattergun approach. It is an open question whether this approach will soften Beijing's resistance to Star.

Efforts to break into China include a \$10m-\$15m invest-

A representative of China Central Television in Beijing said the organisation had "no knowledge" of Today's Asia or China Wise. Furthermore, CCTV had "not been in touch with Star for months, let alone involved in negotiations". Star itself has sought to engage CCTV in negotiations over a long period, but with limited success.

The Phoenix deal, which will involve the establishment of three Chinese-language channels to broadcast sport, films and popular entertainment as a means of raising Star's profile in China, smacks of News Corp's somewhat scattergun approach. It is an open question whether this approach will soften Beijing's resistance to Star.

Efforts to break into China include a \$10m-\$15m invest-

## ASIA-PACIFIC NEWS DIGEST

## Japan's household spending rises

Japanese household spending rose 3.4 per cent in the year to January, the first increase in eight months, according to official data yesterday, but private sector economists warned this overstated the strength of the recovery.

January spending, reported by the government's Management and Co-ordination Agency, is unusually flattered by comparison with the same month last year, when consumer spending plunged in the shocked aftermath of the Kobe earthquake. Nevertheless, this is the latest in a series of encouraging recent economic data, including last week's announcement of a 3.6 per cent annualised increase in gross domestic product in the three months to December.

The survey is centred on salaried households, though, which have relatively stable spending habits. Elsewhere, the consumer spending upturn is as yet patchy, on the evidence of industry figures issued yesterday. Supermarket sales more or less stagnated - up 0.1 per cent - in February. Department stores, whose sales are around half those of supermarkets, reported a 5.1 per cent increase in business last month, thanks to clearance sales.

William Dawkins, Tokyo

## N-powers sign Pacific treaty

France, Britain and the US signed the South Pacific Nuclear Free Zone Treaty yesterday, agreeing to ban nuclear weapons from the region in a move hailed as finally ending its use as a nuclear "playground". In a signing ceremony in the Fijian capital, Suva, representatives of the three nuclear powers put their long-sought signatures to the 11-year-old treaty, joining the other declared nuclear powers, Russia and China.

The signing comes two months after France carried out its sixth and final underground nuclear test in French Polynesia.

The test was widely condemned in the South Pacific and harmed French ties with the region.

The South Pacific Forum, which represents the region's 16 nations, including Australia and New Zealand, said France's commitment to the treaty would help repair relations and put an end to nuclear tensions in the region.

Reuter, Suva

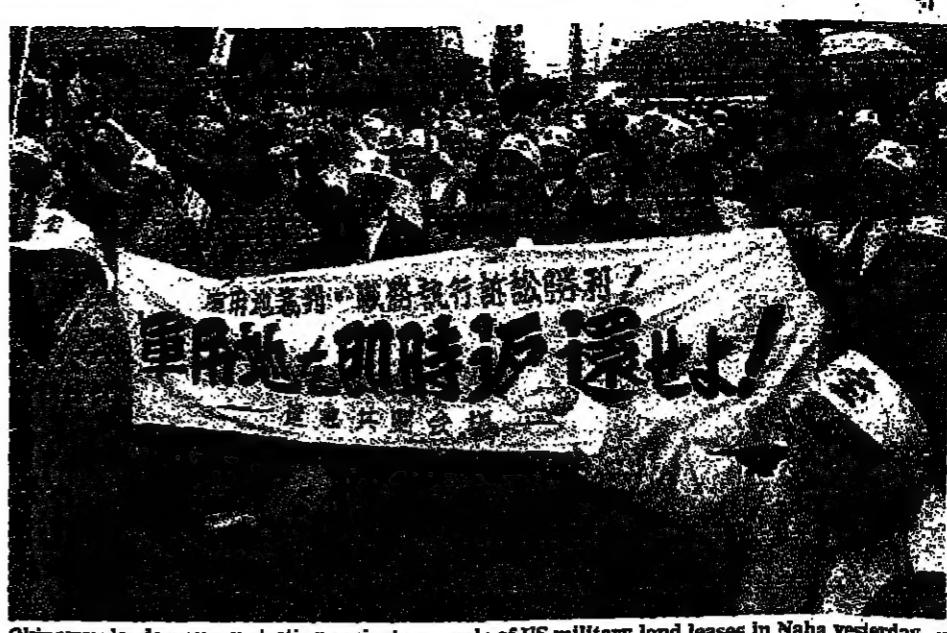
■ Retail sales in Hong Kong fell 6 per cent in January from a year earlier, the colony's Census and Statistics Department said yesterday, blaming a late Chinese New Year.

■ India must invest up to \$150bn (£98bn) in its oil and natural gas industry by 2010 to meet a projected trebling in demand, said Mr Bob Atkinson, area export manager for Britain's Department of Trade and Industry.

Reuter, Bombay

■ The Philippines expects gross domestic product growth of 6.0 to 7.5 per cent in 1997 after 6.2 to 6.5 per cent this year.

AFX Asia, Manila



Okinawan landowners protesting against renewals of US military land leases in Naha yesterday

## Okinawa told to renew leases to US military

By William Dawkins in Tokyo

A Japanese high court yesterday provided legal back-up for the largest US military base in Asia by ruling that the governor of the island of Okinawa must renew US leases

of the island's land to the US military.

But for Star - Mr Murdoch paid \$500m for the network in 1993 and is looking at an overall investment of \$1bn before he turns a profit - the stakes are high and access to subscription-paid cable networks remains a glittering prize.

An indication of the enormous potential of cable in a country where the estimated national urban viewing audience is 350m (the total television audience is 825m) is experience in both Shanghai and Beijing. In Shanghai, subscribers leapt to 1.5m virtually overnight when the new cable service became available last year. In the capital subscribers to Beijing Cable number 1m.

But Star faces formidable opposition in its efforts to secure entry to China for a cable subscription service. CCTV itself is developing its own cable network and would not necessarily welcome Star as a competitor.

Star also had "serious political problems" with Chinese TV regulators, according to a foreign lawyer in Beijing who specialises in the media. China's crackdown on satellite dishes in 1993 came partly in response to Star's own claims that its satellite broadcasts were reaching 32m Chinese households. Beijing saw this as an affront to its efforts to control the flow of information into the country.

In such a situation where some of our neighbours are nervously shoring up their defences on the one hand and rattling their sabres on the other we can hardly afford to forego the modernisation of our armed forces, Mr Ramos told military officers.

The modernisation law, which provides for an initial

projecting US force into east Asia, an insurance against instability in a historically volatile region.

Mr Ota said he would consult those concerned before deciding whether to sign. Initial indications were that Okinawans were accepting the judgment with relative calm.

The ruling by a court in Naha, the Okinawan capital, authorised Mr Ryutaro Hashimoto, the prime minister, to sign the leases after three days if Mr Masahide Ota, governor of the small southern island which is host to 28,000 of the 47,000 US troops stationed in Japan, signed the documents.

Okinawan protests at the Japanese government's insistence that the island host such a large contingent of troops boiled over into an open campaign for the removal of all troops after last September's rape of a schoolgirl. Three US servicemen were convicted of the offence.

In consequence, nearly 3,000

of the 32,000 Okinawans who compulsorily lease territory to the US announced that they would refuse to renew leases

representing around a tenth of the land used by the US military.

Of the total, 35 leases were included in yesterday's judgment. One plot, containing a military telecommunications post in Yomitan, was due to expire at the end of this month. Mr Hashimoto, a firm supporter of the security alliance, was expected to sign the lease without hesitation. However, legal officials said the new lease would not be ready by the deadline. That means Mr Hashimoto would have to consult an Okinawan prefectoral panel on emergency land use to regularise the US use of the Yomitan telecommunications centre.

## Ramos tries to speed up forces' modernisation

By Edward Luce in Manila

President Fidel Ramos yesterday urged the Philippine armed forces to accelerate the modernisation of the country's military in the light of heightened regional tensions in the Taiwan Straits.

Mr Ramos said implementing a \$15bn armed forces modernisation law passed 10 months ago was increasingly urgent because of growing uncertainty in the South China Sea.

In such a situation where some of our neighbours are nervously shoring up their defences on the one hand and rattling their sabres on the other we can hardly afford to forego the modernisation of our armed forces, Mr Ramos told military officers.

Manila government officials have expressed frustration at the military's slow pace in acquiring new hardware. One theory is that armed forces chiefs are reluctant to shift from an infantry-based military towards a more mobile force with a high technology structure, owing to the resultant job losses. Mr

Ramos, a former five-star general, yesterday sought to allay fears of large-scale redundancies.

Mr Ramos, however, did not say whether a \$127m contract with GEC-Marconi to supply the country's first national radar system - for military and civilian use - would go ahead. The deal, suspended in December after a leading senator accused the British defence company of overcharging for the equipment, was to be funded by a concession loan from the UK government which expires on March 31.

The Philippine military, which has complained that it was not consulted on the GEC contract, has opened bidding for a military radar system. This would be the first hardware acquired under the modernisation law.

## INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

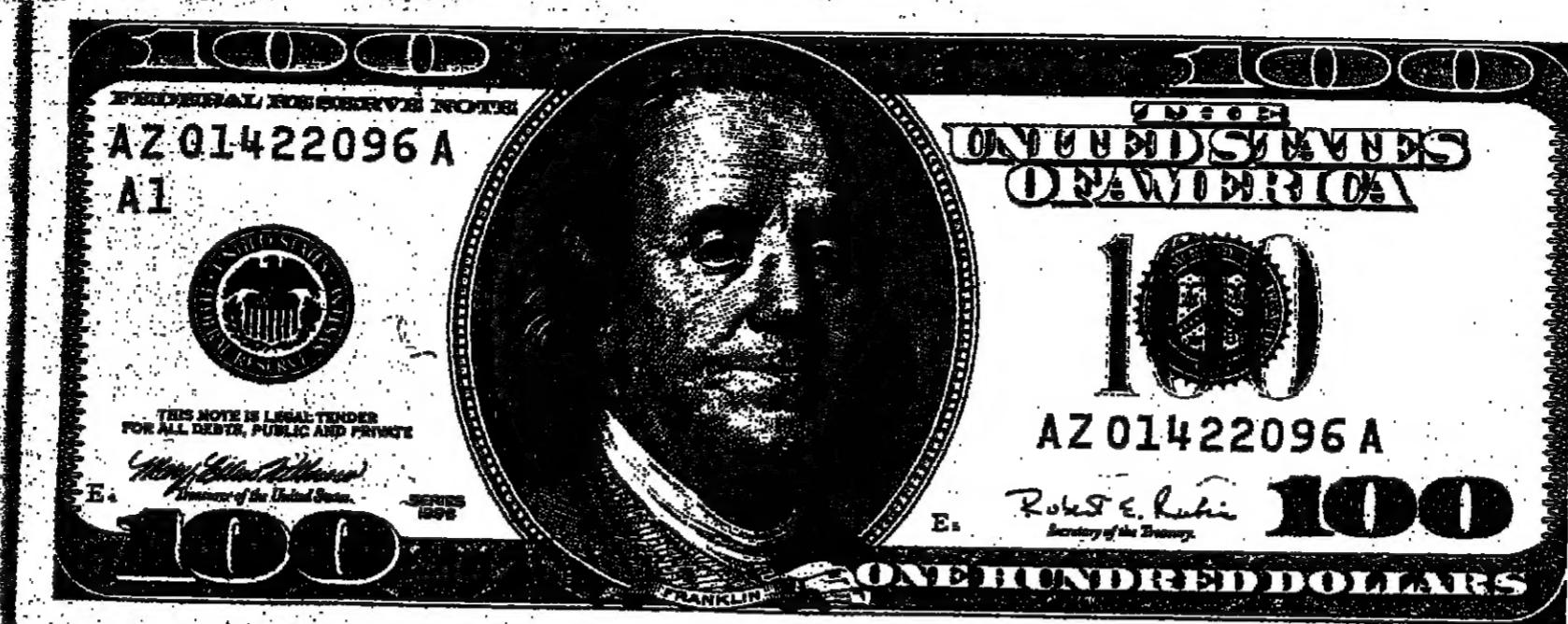
Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

	UNITED STATES			JAPAN			GERMANY		
	Consumer prices	Producer prices	Exchange rate	Consumer prices	Producer prices	Exchange rate	Consumer prices	Producer prices	Exchange rate
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	101.9	98.6	99.8	100.9	95.3	101.4	99.9	97.5	103.6
1987	103.3	103.7	75.1	101.3	92.5	100.1	100.1	95.0	107.9
1988	109.9	100.2	70.4	107.8	104.7	100.1	100.1	98.9	110.9
1989	115.2	109.5	71.9	109.9	101.4	98.9	104.2	99.3	117.1
1990	121.5	113.9	73.2	108.4	94.2	120.1	108.1	107.0	109.9
1991	126.5	116.3	73.9	111.9	96.8	124.3	104.0	110.9	115.0
1992	130.4	117.7	74.0	114.0	95.9	125.8	112.9	104.5	121.5
1993	137.8	119.6	74.3	115.4	94.3	126.8	118.9	104.8	125.9
1994	141.7	122.2	74.9	115.9	92.0	132.4	115.9	104.7	126.8
1995	147.6	129.5	104.7	116.7	94.0	14			

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Introducing the new U.S. \$100 note

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The 1996 U.S. \$100 note, which will soon be in circulation, has been redesigned for one simple reason: to stay ahead of new printing technologies that could be used for counterfeiting.

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The 1996 U.S. \$100 note is the first denomination to be redesigned. Other denominations will be phased in over the next several years.

#### Additional features for greater protection.

In order to accommodate a number of new security features, the overall design has been changed.

While the note is still easily recognizable as American currency, the portrait of Ben Franklin has been enlarged and moved slightly off center to create space for a

watermark. This mark will be visible when the note is held up to the light.

Other features include the addition of color-shifting ink, microprinting, concentric fine-line printing and a security thread that now glows under ultraviolet light.

#### No recall. No devaluation. No time limit.

It is important to remember that the United States government will continue to honor all its currency now in circulation at its full face value. The United States has never recalled or devalued any of its currency and will not do so now.

If you have any questions, please contact the nearest U.S. Embassy or the U.S. Treasury Global Information Center at (202) 872-8177.



This message from the U.S. Treasury  
and the Federal Reserve Board

## NEWS: UK

# Jobless drop would not boost inflation, says OECD

By Gillian Tett,  
Economics Correspondent

Unemployment could fall much further in the UK without triggering inflation, the Organisation for Economic Co-operation and Development believes. The argument, which comes as the OECD prepares its latest annual report on the UK economy, is likely to provide a welcome boost for the British government.

However, the OECD also fears that growing social inequality is present-

ing a serious problem for policy-makers. In an argument likely to be seized on by the opposition Labour party, the OECD says a principal priority for the government should be finding ways to reintegrate the excluded, unemployed poor. The report on the UK economy by the OECD, which acts as an influential free market think-tank for industrialised nations, will not be completed until early summer.

However, UK government officials have had discussions this month

with OECD economists and other member countries about preliminary drafts of the report. The OECD currently has 26 members, and Hungary will be granted membership at the end of the week.

The OECD believes the British economy will show steady growth in the coming year, albeit with the upturn coming slightly later than the UK Treasury expects. Meanwhile, the Paris-based group is increasingly optimistic about the impact of British labour market

reforms in the 1990s on the broader economy. OECD economists have previously indicated that they believed that unemployment in the UK could fall to about 7 per cent from its current 7.9 per cent without triggering inflation.

However, some now suspect that it could fall even further – perhaps as far as below 6 per cent – without fuelling inflation. This drop would yield an unemployment rate of about 5.5%, which would be in line with the British government target dis-

closed by Mr Kenneth Clarke, chancellor of the exchequer.

However, with the OECD believing that this trend leaves the UK with one of the better labour market pictures in Europe, it is now focusing its criticism on other areas of the economy – including inequality.

An OECD study at the end of last year showed that, although income differentials in the UK were smaller than countries such as the US and Italy, the gap between rich and poor grew faster during the 1980s than in

any other industrialised society.

This development has prompted concern at the OECD. However, recent criticism over the issue has irritated some UK government officials. They question whether the issue should be included in the OECD's analysis, partly because the methodology for calculating income inequalities is controversial. But the OECD argues that it is now trying to include a far greater focus on social issues such as unemployment and welfare in its economic analysis.

More top diplomatic posts go to women

By Bruce Clark,  
Diplomatic Correspondent

For the first time, more than half the members of a new generation of entrants into the elite Foreign Office are female.

But the institution which these high-flying young women are joining has become a tougher place, more like the private sector in its internal structure, and more focused on promoting UK business in order to justify its existence.

Foreign Office officials say these are some of the main messages in the annual report from an organisation which has to fight harder than ever to keep its budget and convince the world it is changing with the times.

From this point of view, the fact that 13 of the 21 graduates who joined the Foreign Office's elite stream last year are women is welcome. Less welcome is the fact that only one member of last year's lucky few, selected from about 2,500 applicants, belonged to an ethnic minority.

In most recent years, the share of female entrants has been one-third or less, and claims by the diplomatic service to be an equal opportunity employer received a blow in January when its top woman, Dame Pauline Neville-Jones, resigned after failing to be named ambassador to Paris. To counter this impression, the case of Ms Jessica Pearce, Britain's woman in Minsk, who at 38 is among the youngest serving ambassadors.

As for the FO's raison d'être, the report puts more emphasis than ever on the promotion of UK business – asserting that 35 per cent of embassies' activity is commercial compared with 21 per cent for political analysis.

The report will confirm the cuts in spending on the BBC World Service and the British Council, which caused controversy when announced last year. Spending on the World Service is projected to fall to £161m (\$246m) in 1997-98 from £217m in 1995-96.

## Photomasking plant bought by Photronics of US

By Ian Hamilton Fazey  
In Manchester

Photronics, the leading US manufacturer of photomasks, has bought the photomasking business of GEC-Plessey and will use it as a base for a £17m (\$22m) development at Trafford Park in the northern England city of Manchester.

The company also expects to complete the purchase of Litomask in Neuchatel, Switzerland, from the CSEM group later this week. Although Photronics claims to be the largest photomask manufacturer in the world, it has only a 10 per cent share of the European market and intends to increase this.

Photomasks are an important element in the manufacture of semiconductor chips. They are high-precision quartz plates containing microscopic images of electronic circuits. These are used for etching circuit patterns into semiconductor wafers.

The Trafford Park development will create about 270 jobs, and 33 jobs will move to the factory from GEC-Plessey's plant at nearby Oldham. The £17m cost includes the purchase figure, which is not being disclosed. Grants from the UK government, Manchester Training and Enterprise Council and Trafford Park Development Corporation total £2m.

The corporation has demolished 20 small industrial units,

## Korean company to invest \$13m in N Ireland

By John Murray Brown

A small South Korean machine tools company is to invest \$2.5m (£13m) and create 230 jobs in staunchly republican west Belfast, giving a boost to the most economically depressed areas of Northern Ireland.

The announcement by YG-1, a privately owned company, was welcomed by Sinn Féin, the IRA's political wing, and the moderate nationalist Social Democratic and Labour party.

The investment is in line with the government's policy of boosting economic activity in deprived areas like west Belfast, where unemployment is more than 20 per cent and fear of sectarian violence has frightened off many potential investors.

YG-1 will manufacture end-mill cutting equipment for the aerospace and automotive engineering sectors in Belfast.

It will also locate its European base and marketing and sales operation in the province.

The company is to receive a £2.2m grant from the Northern Ireland Industrial Development Board, which has made a concerted effort to attract South Korean investment. About £70m has been committed to six projects since 1989, with the promise of about 2,000 jobs. A number of other Korean projects are under discussion.

Baroness Denton, the Northern Ireland economy minister, is in Japan and due in Seoul, the South Korean capital, on Thursday. She is expected to announce a £15m expansion of Daewoo's video recorder plant

at Antrim, with the prospect of a further 330 jobs.

Negotiations are continuing with Daewoo over a possible £1bn venture with Texas Instruments for a Northern Ireland semiconductor plant.

Mr Hoekun Song, the YG-1 president, said: "The attractive incentives package and the

efficiency of the transport links to Great Britain and other parts of Europe, provided an irresistible combination of bottom-line business benefits."

YG-1 was "also influenced by the comments and achievements of Korean companies such as Daewoo, Daesung, and Daeryung already established".

## Equitas change could give Names extra safeguard

By Ralph Atkins,  
Insurance Correspondent

Lloyd's of London is drawing up proposals which could significantly improve the attractiveness of its ambitious recovery plan to Names worried that they will never fully escape big liabilities incurred at the insurance market.

The unpublished proposals, agreed with the Department of Trade and Industry in London, affect terms on which a re-insurance company, Equitas, will be set up to take responsibility for billions of pounds of outstanding US pollution and asbestos-related liabilities.

The scheme is understood to have influenced a "validation" report on Lloyd's recovery plan being compiled by the London law firm Slaughter and May on behalf of lossmaking Names. The long-awaited report, to be published at Easter, is expected to support the broad thrust of the Lloyd's proposals.

Equitas is an important part of the recovery plan which also includes a £2.8bn (£4.3bn) offer to lossmaking and litigating Names (individuals whose assets have traditionally supported Lloyd's) and is due to be implemented this summer.

It should allow Names, who are paying to set up Equitas, to sign one last cheque and leave Lloyd's. But many Names fear that if Equitas were at some stage unable to meet liabilities, their "unlimited liability" membership of Lloyd's would

mean they would be pursued for extra funds.

To head off such fears, Lloyd's is understood to have agreed with its regulator, the Department of Trade and Industry, special arrangements which would come into effect if Equitas looked as if it might be unable to meet liabilities. Instead of the usual moratorium on individual policyholders when insurers become insolvent, Equitas could continue paying out a set percentage of the value of each claim. The

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**COMPANIES & MARKETS**

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Tuesday March 26 1996

**LEGAL DEFINITIONS**  
dispute v. 1 a matter for litigation  
2 no it's not 3 oh yes it is 4 I'll see you  
in court 5 consult ROWE & MAW: asap  
(ph 0171-248 4282)

**Rowe & Maw**  
LAWYERS FOR BUSINESS

**IN BRIEF**

**Energy surge helps  
Tractebel rise 13%**

By Gerard Baker in Tokyo

Tractebel, the Belgian energy and engineering group, said strong increases in its gas and electricity businesses helped it increase 1995 profits ahead of expectations by 12.5 per cent, from BFr10.6bn to BFr10.8bn (\$352m). Page 16

**Commerzbank net income falls 7.5%**

Commerzbank, one of Germany's leading banks, announced a doubling of its operating profits for 1995 to DM1.45bn and a higher dividend payment. However, net income was 7.2 per cent lower at DM575m, because the previous year's result had been swollen by the proceeds of asset sales. Page 16

**SSE chief gets \$1.3m relocation expenses**

Mr Jan Leschly (left), the Danish-born chief executive of SwissLife Béguin, was paid \$280,000 (\$1.3m) in relocation expenses when he moved from the UK to the US. The payment was entirely for the costs of moving and did not cover buying any property. The relocation expenses, paid in 1994, were disclosed in the company's annual report. The UK's second largest pharmaceuticals company also disclosed that Mr Leschly was paid \$1.8m for 1995. Page 21

**Swiss group seeks cure in investment**

Ares-Serono, the struggling Swiss pharmaceuticals group, stands at a crossroads. In 1995 net profits were \$107m; last week, the group revealed profits of just \$25.4m for 1995. Its hopes of a turnaround lie with a \$400m a year investment programme, due for completion in 1998. Page 17

**Mitsubishi to take digital satellite stake**

Mitsubishi, Japan's largest consumer electronics group, is to move into broadcasting by taking a 10 per cent stake in DirectTV Japan, the digital satellite broadcasting company which plans to introduce digital satellite broadcasts in Japan next summer. Page 18; TV venture Bimmers West, Page 18

**British gas pipeline in South America**

British Gas, which has targeted South America as one of two regions central to its global expansion plans, is gambling its future there on three big, but highly risky, projects: a \$300m gas pipeline between Argentina and Chile, a \$25m pipeline from Bolivia to Brazil and the search for oil in disputed waters around the Falkland Islands. Page 19

**Morgan Crucible prepares for acquisitions**

Morgan Crucible, the UK specialist materials and engineering group, said it was poised for further acquisitions in emerging markets such as east Asia and eastern Europe as it reported a 17.1 per cent increase in pre-tax profits in the year to January 4 to £351m. Page 20

**NEERING  
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FTSE Govt bonds

Bond futures and options

Bond prices and yields

Commodity prices

Dividends announced, UK

EMS currency rates

Eurodollar rates

FTSE Interim Index

FTSE-A World Index

FT Gold/Mines Index

FTSE Int'l bond sec

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Market Statistics

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Commodity prices

Dividends announced, UK

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Chief price changes yesterday

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Mines +15 +18

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Prague

## COMPANIES AND FINANCE: EUROPE

**Tractebel beats forecasts with 12% increase**

By Neil Buckley in Brussels

Tractebel, the Belgian energy and engineering group, said strong growth in its gas and electricity businesses helped it increase 1995 profits by 12.6 per cent, from BFr9.6bn to BFr10.8bn (\$336m).

The figures - which are better than expected - exclude an extraordinary profit on financial transactions in 1995 of BFr505m, despite a BFr1bn write-down in the value of Tractebel's shareholding in Eurotunnel, the Channel tunnel operator.

Consolidated turnover increased 8 per cent, from BFr29.8bn to BFr32.2bn. Total investment increased to BFr1.6bn, more than half of it outside the regulated Belgian gas and electricity industry, as Tractebel sought to increase the international spread of its businesses and reduce reliance on Belgium.

In its Belgian electricity business, Tractebel lifted sales of electricity for distribution by 2.6 per cent. Sales to direct customers in the first two quarters were strong, but a downturn in the final quarter

of 1995 had continued into this year. Total electricity sales for 1995 increased 3.3 per cent.

The international electricity and gas arm continued its expansion through the acquisition of CRSS, the US power producer, power stations in Hungary and Chile, and developments in Italy, India and Kazakhstan.

It also won a project to construct a gas pipeline network to supply industries on the outskirts of the Thai capital Bangkok.

Distrigas, the Belgian gas business, hopes to benefit from

its 5 per cent stake in Interconnector, which is preparing to build a link between the UK and continental gas grids. Distrigas is preparing to upgrade its own network to carry more gas to other countries.

Coditel, the cable operator, suffered a setback when its Vodafon consortium with Vodafone failed to win the second GSM licence offered by the Belgian government, but Tractebel said Coditel was still expanding its stakes in cable TV and mobile phone services abroad.

Fabricom, the engineering

group, acquired several industrial pipework companies in France and the UK, as well as extending electrical installation activities in France, and expanded into waste management in Belgium.

But the real estate business, Compagnie Immobilière de Belgique, reduced its development activities in a depressed property market.

The company is proposing a net dividend of BFr370 a share, up 4.2 per cent from BFr355 the previous year, with earnings per share up 5.7 per cent from BFr778 to BFr823.

**Rise in sales outside Italy lifts Marzotto**

By Andrew Hill in Milan

Strong growth in sales outside Italy helped Marzotto, the Italian textile and clothing group, to increase net consolidated profit in 1995 from Ls2.3bn to Ls3.1bn (\$32m), slightly ahead of market expectations.

Marzotto, which controls Hugo Boss, the German men's fashion company, has now restored profit to the levels of 1989-90, before a slump in the Italian clothing market cut away at the domestic income.

The Italian clothing operations returned to profit in 1995, after two years of losses, but Marzotto said the Italian market was still stagnant. Sales in Italy slipped 0.5 per cent, also hit by a "severe drop in demand" for Marzotto's linen yarns, while sales abroad grew 1.9 per cent.

In the 12 months to December 31, 1995, overall turnover grew nearly 12 per cent, from Ls1.11bn to Ls1.357bn, less than a third of which is generated in Italy.

Analysts said yesterday that with the Italian currency growing stronger, Marzotto could be hard-pressed to repeat last year's sales growth outside Italy. However, the company said that even if demand remained weak abroad, the group would aim to increase sales by improving its service to customers, and the quality of its products, playing on the reputation of Italian-made clothes and fabrics.

The parent company, which registered a net profit of Ls2.7bn in 1995, against Ls1.6bn the previous year, proposed a dividend of Ls230 for each ordinary share, compared with Ls150 in 1994. Convertible savings shares will pay a dividend of Ls250, against Ls100, and non-convertible savings shares Ls230, against Ls40.

Marzotto said that net financial debt had also increased during 1995, from Ls477.4bn to Ls495.4bn, because of a sharp increase in investment expenditure, including the purchase of more preferred shares in Hugo Boss.

The acquisition of Hugo Boss shares took Marzotto's stake in the combined preferred and ordinary capital of the German group to more than 50 per cent. Marzotto bought a 7.75 per cent stake in Hugo Boss in 1991, and now owns 22.4 per cent of the preferred shares. Hugo Boss, which has been expanding sales and production outside Germany, increased net profit 11 per cent to DM55m.

Marzotto's shares are quoted in Milan and about 53 per cent of its capital is owned by descendants of the Marzotto family, which founded the company more than 150 years ago in Valdagno, north-east Italy.

**NEWS DIGEST****BASF 'aims to hit DM4.23bn' in 1996**

BASF, the German chemicals group, said it planned to achieve a 1996 pre-tax profit of DM4.23bn (\$2.67bn), up from DM4.13bn in 1995, according to a report to be published in the April edition of Capital magazine. A 4.6 per cent rise in sales to DM48.47bn has been targeted, up from DM46.23bn a year earlier, the magazine said. Internal operating profits should remain stable at about DM3.5bn, the report said.

BASF said its chemicals division should report an internal operating profit of DM1.43bn, down from DM1.55bn a year earlier, while the plastics and fibres division is expected to post a 1996 internal operating profit of DM1.14bn, down from DM1.245bn, the magazine reported. The health and nutrition division should have an internal operating profit of DM0.44bn, up from DM0.37bn in 1995, and the dyestuff and finishing products division should achieve profits of DM0.54bn, up from DM0.43bn last year.

The oil and gas division is expected to have an operating profit of DM1.25bn, up from DM0.8bn, while BASF's information systems division is seen posting a profit of DM0.64bn, after a loss of DM0.92bn last year. According to plan, BASF's other business should return a 1996 loss of DM0.59bn, compared with a loss of DM205m a year earlier. BASF plans to invest about DM3.5bn in fixed assets this year and DM2.15bn in research and development.

*AFX News, Frankfurt*

**Rheinmetall back in the black**

Rheinmetall, the privately-owned German arms and engineering group, yesterday reported an operating profit for 1995, following two years of losses, and said it would move more production abroad in order to improve its competitiveness.

The group, which is part of the Röchling Industrie holding company, said sales last year had increased 5.7 per cent to DM3.4bn (\$2.3bn), driven mainly by better results at the Pierburg automotive components and the Rheinmetall arms divisions. The Jagaberg engineering unit, however, reported a net loss, despite of difficulties at its paper technology arm, which makes up about 60 per cent of Jagaberg's sales. Prices remained lower than expected last year had seen an "unexpectedly high rise in wage costs," the group said.

In an effort to avoid the higher production costs in Germany caused by the steadily appreciating D-Mark and high wage settlements, the group said that by 1998 it hoped to double its production capacities abroad to about 25 per cent of total production. Group new orders in 1995 rose 4 per cent over those a year earlier while new orders in January and February rose 44 per cent over the same period a year ago.

*Michael Lindenbaum, Bonn*

**Renault suffers decline in Spain**

The Renault group's listed Spanish carmaking subsidiary saw pre-tax profits drop 64 per cent last year from Pta450m to Pta1.59m (\$0.25m), blaming the fall in a manufacturer's price war. Mr Jean-Pierre Laurent, head of Renault's commercial operations in Spain, attacked rival French group PSA Peugeot Citroën for a recent campaign offering discounts of up to Pta400,000 on Citroën cars, and said the price war had reached "the limits of the tolerable". He described competition in the Spanish market, where overall car sales fell 8 per cent last year, as "the toughest in Europe".

Car production at Fase Renault, which is the French group's largest foreign manufacturing subsidiary, held roughly stable at 361,000 units, with more than 70 per cent going to export. Turnover rose 8 per cent to Pta571m, thanks to an increase of almost 15 per cent in export revenues. Its sales in the domestic market fell 3 per cent to Pta233m. The company, about 90 per cent owned by the French state-controlled group, planned to invest Pta200m over the next three years, chairman Mr Juan Antonio Moral said.

*David White, Madrid*

**ABB acquires Maritime Seanon**

ABB, the Swiss-Swedish engineering group, is expanding its oil and gas business with the acquisition of Maritime Seanon, a Norwegian company specialising in floating and underwater production systems. ABB is also buying control of Maritime's stakes in two other oil and gas equipment companies - JP Kenny of Stavanger and Koomey, with offices in Houston, Aberdeen and Singapore. The three companies together employ more than 150 and have annual sales of about \$60m.

ABB, which claims a 30 per cent world market share in subsea equipment for oil and gas fields, said yesterday the market was growing rapidly due to technological advances. It was possible now to exploit previously uneconomic fields. About \$20m of ABB's \$860m turnover last year came from the oil, gas and petrochemical industries.

*Stefan Wagstyl*

**Commerzbank declines despite operating surge**

By Andrew Fisher in Frankfurt

Commerzbank, one of Germany's leading banks, yesterday announced a doubling of its operating profits for 1995 and a higher dividend payment. However, net income was lower because the previous year's result had been swollen by proceeds from asset sales.

Operating profits were 109 per cent higher at DM1.49bn (\$882.5m). The bank will pay a dividend of DM13.50 a share, compared with the previous DM12, though this was enhanced by an extra DM1.50 distribution to mark the 125th anniversary. The payout will cost the bank DM520m, a 15 per cent rise on last year's dividend cost.

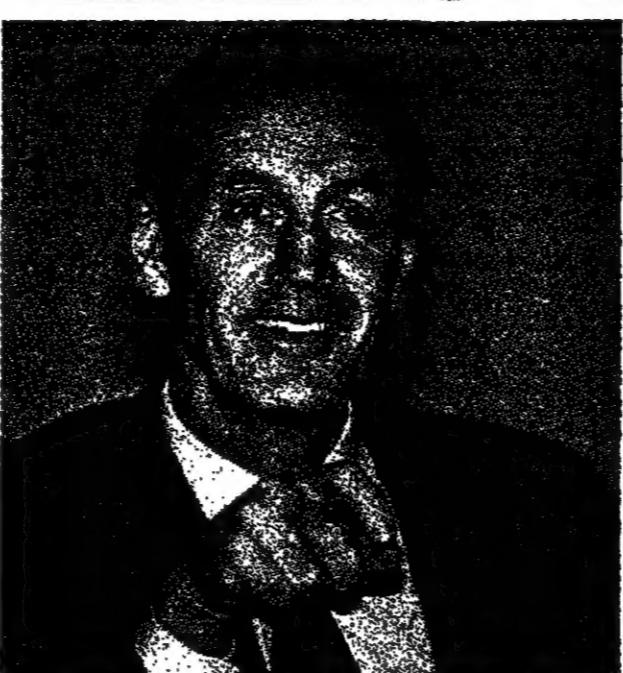
The bank produced only the minimum of figures after yesterday's supervisory board

meeting. Corporate results are now announced as quickly as possible in line with strict disclosure requirements on potentially market-moving news.

Chairman Mr Martin Kohlhausen will give more details at the bank's annual press conference this morning.

The bank gave no details yesterday about risk provisions, having cut these sharply in the January-September period after the bond market improvement. Nor did it comment on the possible impact of its involvement with Pottier. The bank arranged bond issues for the bankrupt Dutch aircraft company - Daimler-Benz, which has a large minority holding, ceased support in January - and investors have been concerned about how much it has on its books.

Commerzbank has recently been embarrassed by highly-publicised tax raids on its head office in Frankfurt and other



Martin Kohlhausen: will give more details of results today

**Daewoo lets Steyr-Daimler-Puch plan lapse**

By John Griffiths

A letter of intent signed by Korean carmaker Daewoo to buy a majority stake in Steyr-Daimler-Puch, the Austrian vehicle engineering group, has expired without the deal being completed.

Under a letter of intent signed last October, Daewoo was to have acquired 65 per cent of Steyr-Daimler-Puch's shares from Creditanstalt,

the Austrian bank. A joint statement said Steyr-Daimler-Puch had not been able, in the short-term, to offer the capacities Daewoo wanted, particularly in research and development. It also cited "industrial reasons" for Daewoo withdrawing but said collaboration on some existing engine projects would continue.

Daewoo's decision to let the intended acquisition lapse is in line with an alternative plan it has adopted to buy Group Lotus, the UK sports car and engineering concern.

The Korean company is understood to have signed a letter of intent to buy Lotus in mid-February, although so far it has neither confirmed nor denied doing so.

Lotus has also denied any knowledge of an agreement with Daewoo, although it has acknowledged that talks have been going on with "potential investors".

The precise ownership of Lotus remains a subject of confusion. Italian entrepreneur Mr Romano Artoli, who set up "super-car" maker Bugatti Automobili, also bought Lotus from General Motors two years ago.

Bugatti Automobili was declared insolvent last year.

Since the bankruptcy declaration, Mr Artoli's company has been going on with "potential investors".

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This announcement appears as a matter of record only.

**The Belgian State**

has sold a 50% minus one share holding in

**BELGACOM**

to

**ADSB Telecommunications B.V.**

a consortium composed of Ameritech International, Inc., Tele Danmark A/S and Singapore Telecommunications Limited.



The undersigned acted as financial advisors to the Belgian State in this transaction.

March 1996

**MORGAN STANLEY & CO.**

**BANQUE DEGROOF**

**CREDIT LYONNAIS - USD 50,000,000 - UNDATED SUBORDINATED STEP UP VARIABLE RATE NOTES**

Noteholders are hereby informed that the rate applicable for the coupon N°9 has been fixed at 6.25703 %.

The Coupon N°9 will be payable at the price of USD 15,903.28

on September 24th, 1996,

covering the period as from

March 24th, 1996 to September

23rd, 1996 (183 days), and

representing 183 days of interest.

The Agent Bank and

Principal Paying Agent

**CREDIT LYONNAIS S.A.**

to hit in 1996

it planned to achieve 10%, up from DM44.12bn in the April rise in sales to DM46.23bn a year earlier. Profits should start said.

old report an internal vision is expected to DM1.68bn, down from health and nutrition profit of DM6.15bn and finishing DM5.44bn, up from

have an operating BASF's information of DM6.4m, after a loss of BASF's other business compared with a loss of its most important markets - following healthcare reforms there.

This month the group suffered another disappointment when a US Food and Drug Administration advisory committee refused to recommend one of its drugs, Serostim, for the treatment of weight loss in AIDS patients.

Such problems would daunt the most experienced management. But the man in charge at Ares-Serono, Mr Ernesto Bertarelli, the deputy chief executive, is just 30.

Although he first attracted

public attention when he

group said.

ion costs in Germany and high wage hoped to double its per cent of total 4 per cent over January and February ago.

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## SOPHIA

Commercial property business

### 1995 Results

Identical total (in millions of francs)	1995*	1994	1993
Consolidated turnover	2,780	3,345	2,366
Miscellaneous provisions	37	47	106
Cash flow	319	310	291
Amortisation of assets	69	64	50
Current results	250	246	241
Miscellaneous capital gains	42	75	135
Global taxes	16	9	7
Consolidated net profit	288	302	360

\*Consolidated financial year ended December.

**827 millions of francs**  
New commitments

**243 millions of francs**  
Rental revenue

**14 billions of francs**  
Net consolidated commitments

**250 millions of francs**  
Current results

The cash flow and current results pursued their growth recorded in 1994. The consolidated net profit amounted to 288 million francs, down slightly compared with 1994 due to a lower volume of capital gains made and the increase in global taxes.

Global dividends The global dividend suggested at the Shareholders' Meeting was 17.75 francs per share including 0.50 francs in tax credits.

**66** In an environment which is still difficult and highly competitive, Sophia has decided to value its new communications strategy as not to weaken the medium and long term development prospects for its results. In 1996, within the framework of the new leasing system, which is clearly more flexible and well adapted to customers' new expectations, SOPHIA, a financial institution which is independent of all banking networks, has the desire and the will to enhance its financial, property and technical abilities both in its customers in the field of commercial property business and public facilities.

Jean-Claude Wagner - Managing Director

SOPHIA  
63, avenue des Champs Elysées - 75008 Paris - Tel. (+33) 1 44 35 47 46

## Philips Electronics N.V.

Eindhoven, The Netherlands

### DIVIDEND 1995

At the ordinary General Meeting of Shareholders held on 25 March 1996 a dividend for the financial year ended 31 December 1995, was declared at NLG 1.60 per Ordinary Share of NLG 10,- nominal value (ex-dividend date: 26 March 1996).

The dividend will (on share certificates in 'CF'-form and on shares in the form of an entry in the company's share register in the Netherlands) be payable in cash as of 11 April 1996. Such dividend payment is subject to deduction of 25% Netherlands Withholding Tax.

**CF-Shares:** The dividend payment in the UK will be made through the Company's paying agent, Hill Samuel Bank Ltd, 7th Floor, 10 Fleet Street, London, EC4M 7RH, to the CF depositaries in the UK in accordance with their respective positions in the books of the CF Amsterdam on 25 March 1996 at the close of business.

UK holders of CF-shares are reminded that the 25% Netherlands Withholding Tax may be reduced to 15% if payment is made to residents of the United Kingdom (Great Britain and Northern Ireland with exception of the Channel Islands and the Isle of Man) or to residents of Aruba, Austria, Australia, Belgium, Brazil, Canada, Denmark, Finland, France, Germany, India, Indonesia, Republic of Ireland, Italy, Japan, Luxembourg, Netherlands, Netherlands Antilles, New Zealand, Norway, South Africa, Spain, Sweden and the United States of America, who deliver the appropriate Tax Declarations to Hill Samuel Bank Ltd.

The Netherlands Withholding Tax may be reduced to 20% if payment is made to residents of Surinam who deliver the appropriate Tax Declaration also to Hill Samuel Bank Ltd.

The Netherlands Withholding Tax may be reduced to 0% if payment is made to exempt US pension trusts who deliver the appropriate Tax Declaration also to Hill Samuel Bank Ltd.

Eindhoven, 26 March, 1996

The Board of Management



**PHILIPS**

The Financial Times plans to publish a series of surveys on 'New Financial Markets', the second of these being

## Eastern & Central European Finance & Investment

on Monday, April 15.

The reports are as follows:

April 15	Eastern & Central Europe Finance & Investment	September 27	World Economy & Finance
April 29	Asian Financial Markets		
May 13	African Banking and Investment	October 29	Middle East Finance and Investment

They will be timed to coincide with development bank and regional economic meetings in those areas. These high level meetings attract potential investors to the region. International investment bankers, alongside local banks and businesses.

The Eastern & Central European Finance & Investment survey aims to look at the rapid growth of this market in recent years. It will contain a number of sections including individual economies, debt, infrastructure development, project finance and the role played by international financial institutions in the region.

For further information on advertising please contact

Patricia Surridge: Tel: +44 171 873 3426 Fax: +44 171 873 3204

Hannah Pursell: Tel: +44 171 873 4167 Fax: +44 171 873 4295

FT Surveys

## COMPANIES AND FINANCE: ASIA-PACIFIC

# Matsushita to buy stake in satellite broadcaster

By Michiyo Nakamoto  
in Tokyo

Matsushita, Japan's largest consumer electronics group, plans to move into broadcasting by taking a 10 per cent stake in Direct TV Japan, the digital satellite broadcasting company.

This is the first time a Japanese consumer electronics company has taken a large stake in a broadcasting company. The move also highlights the transition to digital technology that is taking place in the consumer electronics industry.

DTVJ plans to introduce digital satellite broadcasts in Japan next summer. The company is 42.5 per cent owned by Hughes Communications, a unit of Hughes Electronics of the US, and 42.5 per cent by Culture Convenience Club, a Japanese video rental company. The remainder is owned by other Japanese companies.

However, its latest plan to seek a foothold in the broadcasting industry is seen as a

more astute strategy in the context of the switch to digital technology in the consumer electronics industry.

Matsushita yesterday emphasised that its investment in DTVJ was primarily a way of entering the broadcasting business. Matsushita has made several investments in cable TV companies but these have been much smaller than the DTVJ deal, although the value of its investment in DTVJ – which plans to make a substantial capital increase by the end of the year – is unclear.

Matsushita last year sold its majority stake in MCA, the US entertainment group, which it had acquired in 1990 and much controversy. The sale was an embarrassing admission that its strategy of seeking to expand hardware sales through control of a software company had failed.

However, its latest plan to seek a foothold in the broadcasting industry is seen as a

more astute strategy in the context of the switch to digital technology in the consumer electronics industry.

The launch of digital video discs will bring digital technology into the home in a major way for the first time," said Mr Hideki Watanabe, industry analyst at Nikko Research Centre in Tokyo. The CD-sized discs, which can play back high quality digital video, will be introduced later this year in Japan.

Broadcasting is also moving towards digital technology with the launch of the first digital satellite broadcast service in Japan by PerfectTV later this year.

The move could encourage other consumer electronics companies to follow suit. Sony, which has also made small investments in broadcasters, said it would be interested in taking up such opportunities in the industry as digitalisation increased.

### NEWS DIGEST

## Westfield considers airport investments

Westfield, the Australian property developer which has specialised in the shopping centre market, is teaming up with the US-based Airport Group International to look at investment opportunities resulting from the privatisation of Australia's airports. AGI, in turn, is owned by Lockheed and Soros Capital, Mr George Soros's group.

The impending privatisation has attracted several interested parties. Lend Lease, the Sydney-based financial services group, linked with Brambles, the Australian transportation group, to form a potential bidding consortium. BAA of the UK has joined forces with two big local institutional investors, in another consortium, known as Australia Pacific Airports. Other European operators, including Schiphol and Aeroports de Paris, are also believed to be interested.

Details of how the privatisation will proceed following the change in Australia's federal government this month have yet to be clarified. Last week, Mr John Sharp, the new transport minister, indicated that Melbourne, Perth, Brisbane and Adelaide airports were likely to form the "first tranche" of sales, with Sydney possibly delayed for up to three years while noise problems are dealt with. The first-tranche sales would take place "as soon as possible" – probably this year – and smaller airports would come later.

Nikki Tait, Sydney

### Henderson IPO oversubscribed

Henderson Land, the latest Hong Kong developer to spin off its China interests in a separate listing, yesterday said the HK\$175.65m (US\$32m) initial public offering was 3.4 times subscribed, as a result of which the number of public shares is being lifted from 8.31m to 11.8m. Another offer of 2.15m preferential shares was also oversubscribed, the company said.

In total, Henderson China, the newly-created China property concern, issued 89.77m shares at HK\$21.50 each. Of these, and apart from the 2.15m preferential shares, 8.31m were to have been sold to the public, and the balance placed with professional investors. The additional tranche, to meet public demand, means the amount offered to institutions will be scaled back to 8.81m shares. The proceeds of the issue are expected to eliminate debt at the new company.

Louise Lucas, Hong Kong

### Revamp at Thai oil group

Petroleum Authority of Thailand (PPT), Thailand's state-owned oil company, announced a corporate restructuring yesterday, including stock market listings for three newly created subsidiaries. PPT has been split into four broad divisions: exploration, production and gas; refining; downstream oil; and petrochemicals. Each of these will be responsible for management supervision of subsidiary companies and PPT's extensive shareholding stakes in joint-ventures with the private sector.

PPT said one of principal reasons for seeking more public listings was to help the organisation become "self-financing" while making the huge investments needed to meet Thailand's energy needs. Energy demand is expected to increase at more than 8 per cent annually for the next five years, according to E&W Securities.

One of the new subsidiaries, PTT Gas, to be controlled by PPT's exploration, production and gas division, will apply for a stock market listing by the end of this year, PTT officials said. Another subsidiary of the same division, PTT E&P, sold shares to the public in 1993. PTT's Downstream Oil will control the other two new subsidiaries, PTT Oil and PTT International. Their public offerings are likely to come in 1997.

PPT is likely to retain a majority stake in the three new subsidiaries.

Ted Bardacke, Bangkok

## Dogfight offers preview of business battles

Rivalry in Hong Kong's aviation sector highlights problems ahead of 1997 handover

**A** preview of one of Hong Kong's most important business battles can be glimpsed in the employment pages of the local press.

Dragonair, the territory's small but thriving carrier, has been searching for staff. So has CNAC, the airline arm of China's Civil Aviation Authority, which is planning to launch services from Hong Kong.

Both are eyeing the markets for southern China, one of the fastest-growing regions of the world. But the looming dogfight shows more than the attractions of the local aviation sector. It reveals how Hong Kong's handover to China next year is complicating business strategies, posing a tough challenge for incumbents and testing the tactics of newcomers.

Dragonair itself is a mix of the two. Founded in 1985 by a group of investors and Mr Steven Chao, the textiles magnate, it struggled to expand until 1990, when majority stake was seized jointly by Citic Pacific, the Hong Kong arm of China's main investment vehicle, and Cathay Pacific, a subsidiary of Swire Pacific, the UK-controlled conglomerate.

Since then, the carrier has established itself as the preferred choice of businessmen flying into China and as a profitable operation. Last year's profits are estimated at more than HK\$700m (US\$90.5m), a healthy return on the 14 routes it flies to China along with regional destinations from Bangladesh to Japan.

Success, however, has fuelled the problems facing Dragonair. Drawn by the fast-growing market, CNAC has

applied for an air operator's certificate in Hong Kong. If granted – and aviation sources believe approval could come within weeks – CNAC would be able to operate charter flights from Hong Kong and would move a step towards a licence for scheduled services.

The company's ambitions and its Beijing connections have already put the brakes on Dragonair's ambitions. "Dragonair is finding it tough to get new capacity on existing routes and to add new routes," says Mr Koo Zayong, aviation analyst at CS First Boston in Hong Kong. Profit growth slowed markedly last year, reflecting the constraints being placed on the carrier.

The turbulence is becoming ever greater around the shareholding structure of the company. Wary of a mainland rival setting up in Hong Kong, particularly one tied to China's aviation authority, Cathay has sought to assuage CNAC's appetite by selling it a stake in Dragonair. "There have been discussions and there will be discussions. I have no doubt," says Mr Peter Sutich, chairman of Cathay and Swire Pacific.

Despite the failure of previous talks, the strategy might prove successful. But industry analysts believe CNAC will only be satisfied with a significant stake in Dragonair and that it has already signalled a firm intention to establish its own operation.

"They are a fair way down the road," says one aviation consultant, pointing to the leasing of aircraft and the hiring of executives for what has been dubbed China Hong Kong

Airlines. "At the least they have put themselves in a strong bargaining position."

The strength of this position has been reflected in the relationship between Cathay and Citic. Earlier this month, Citic Pacific's chairman and managing director announced they were resigning from the Cathay board in a move that indicated a desire to distance themselves from Cathay, while signalling their own ambitions for Dragonair.

These are important moves in a very complex game," says one aviation consultant. "They [Citic] want to be seen as the mainland aviation operator in Hong Kong, and are distancing themselves from British interests."

According to this view,

Citic's plans cannot be achieved in the face of opposition from CNAC. Although Citic carries significant clout in Beijing – the father of Mr Larry Yung, Citic's chairman, is China's vice-president – CNAC holds the trump cards on aviation issues. This position is reinforced by the fact that post-1997 air routes between China and Hong Kong will ultimately be decided by the central government in China.

"The fact that Dragonair has been frustrated in terms of expansion may show the limits of Citic's influence in their rivalry with CNAC," says one industry executive. "There is no love lost between Citic and CNAC, but pragmatism may force them closer."

This is no small concern for Cathay, which fears the prospect of competition with the subsidiary of the Chinese aviation authority and which has hoped to satisfy mainland ambitions through the presence of Citic as a significant local player.

**I**t contests the legal basis for a CNAC operation in Hong Kong, citing the requirement in Hong Kong's post-1997 constitution that the territory's operators must have their principal place of business in Hong Kong. For Cathay, the issue is a test of the "one country, two systems" principle which underpins the handover to China.

Cathay's Chinese opponents, however, are set to play the competition card, criticising Hong Kong's "one route, one airline" policy.

Cathay's argument that the 60-odd international carriers flying in and out of Kai Tak airport provide adequate competition may not cut much ice with hungry rivals from the north. Nor is there much it can do about the realpolitik relating to the sensitivity of a UK-controlled group owning the territory's main carrier.

"The real issue is the creation of a Chinese entity to challenge Cathay," says Mr Koo at CS First Boston. According to this view, the present spacing is an eliminator bout to decide who will face the current jostling around Dragonair seem sedate. But it also explains why it matters so much.

John Riddings

## Cumnock Coal likely to reject Glencore bid

By Nikki Tait in Sydney

Glencore International, the international commodity trading group based in Switzerland and formerly known as Marc Rich, yesterday made a A\$60m (US\$47m) bid for Cumnock Coal, the Australian coal producer.

Glencore has instructed its brokers, BT Securities, to stand in the market from April 9, and offer to acquire C

## COMPANIES AND FINANCE: THE AMERICAS

## Compaq offers network products

By Louise Kehoe  
in San Francisco

Compaq Computer, the world's largest personal computer manufacturer, will today launch a range of products designed to break into the rapidly-growing market for computer networking equipment.

Previously, Compaq has built network adapter cards for its own PCs but has had no distinct presence in the \$13bn networking equipment market.

The move follows Compaq's acquisition last year of NetWorth and Thomas Conrad.

two small US networking equipment companies. Compaq subsequently formed a new internetworking division which is now launching its first products.

The market for computer networking equipment is growing rapidly as businesses install and upgrade networks.

Salomon Brothers predicts worldwide sales of \$2.5bn by 1999. The market is dominated by companies such as Cisco Systems, Bay Networks and 3Com, which manufacture routers, bridges, hubs and network adapters - the "plumbing" equipment that holds

together local and wide area computer networks.

The market is attractive because networking equipment carries gross profit margins of about 50 per cent of revenues, according to Mr Doug Pushard, Compaq vice-president. PC gross profit margins have shrunk to about 20 per cent.

Compaq's first networking products include adapter cards, which can be plugged into PCs and servers, and a high-speed switch that directs data traffic from desktop PCs to groups of servers.

Compaq plans to introduce a router for use in wide area networks later this year as a result of a joint development agreement with Cisco Systems.

Mr Pushard said Compaq would undercut the prices of

## British Gas faces tough challenge

The company is gambling on three large projects in South America

**B**ritish Gas, which has targeted South America as one of two regions central to its global expansion plans, is gambling its Latin American future on three large, but highly risky, projects: a 390km gas pipeline between Argentina and Chile, a \$2bn pipeline from Bolivia to Brazil, and the search for oil in disputed waters around the Falkland Islands.

All three are fraught with complexity, admits Mr Stephen Brandon, executive director with special responsibility for the Americas.

"The investments we are going to make in Latin America's southern cone are going to be heavily determined by our success or failure with [these] two or three big projects," he says.

As well as doubts over the projects themselves - all in their early stages - the UK company will also have to confront internal financing constraints as a result of its complex demerger.

"We have made commitments on dividend policy... which will require some fairly prudent corporate management of our cash flows," says Mr Brandon. "Our capacity to fund these projects is going to be affected by competition from other regions of the world, like south-east Asia... which will be competing for corporate funding."

Further ahead, however, "demerger will differentiate what we now call TransCo

International [the pipeline business] as a long-term investment-driven company [from] British Gas Energy, which is a short-term commercial trading business," he says. "The two are constraining each other."

After the merger, he believes, investors' different views of TransCo will make it easier to raise more long-term project financing.

Mr Brandon hopes that much of those funds can be funnelled into South America, where energy markets are rapidly opening up. Liberal economic reforms, plus the Mercosur regional integration process, spearheaded by Argentina and Brazil, have attracted the attention of the global exploration and production community, he says. "One is seeing the development of a very serious reserve capacity matched to very serious market prospects."

**I**t is with the intention of linking itself with a potential market that British Gas, together with Tenneco Gas of the US, is planning an 800km pipeline from Argentina's Patagonian fields to Chilean customers in and around Santiago.

But others have had the same idea: Novacorp of Canada is heading a consortium with an alternative pipeline plan. That has left British Gas's Transgas project in a complex game of bluff with Novacorp, which has already signed Chilean gas sales contracts and

has started laying pipes. Mr Brandon vigorously denies Transgas has been left behind in a race where winner is likely to take all. Transgas will "within weeks" firm up a sales contract with a North American consortium willing to build a large power station in central Chile, he says. But, "whether Chile's market can support two pipelines from an economic standpoint is debatable".

If doubts shroud the UK company's Chilean pipeline, its two other star projects are still more nebulous. The first is a plan, still some years off, to build a \$2bn pipeline between Bolivian gas fields and Brazil. The viability of this pipeline will depend on the ability of many companies involved to work together, as well as on liberalisation of Brazil's and Bolivia's energy markets.

British Gas's participation in the project is through the BTB consortium, formed with Tenneco and Australia's BHP. This has 25 per cent of the proposed pipeline on the Brazilian side and 4.5 per cent in Bolivia. British Gas is considering raising its stake by participating in the privatisation of YPFB, Bolivia's state hydrocarbons group (which has a 51 per cent stake in the Bolivian section of the pipeline and 12 per cent of the Brazilian section). It is also evaluating YPFB's upstream assets, which will also be sold off within months.

Oil exploration around the disputed Falkland Islands promises to be perhaps the highest-risk proposal of them all. It could also bring the biggest rewards. British Gas, which has teamed up with Argentina's privatised oil group YPF to evaluate seismic data, is expected to bid for one or more blocks by July.

The company, which believes political risk in the former war zone has been neutralised by last year's Anglo-Argentine co-operation accord, concedes that the technical challenges are big.

The deep waters around the Falklands, distant from leading markets, may stretch drilling capacity to the limits. It is likely to take millions of dollars and several years to prove the existence of exploitable reserves.

**M**r Brandon says the task British Gas has set itself in South America is tough. "The challenge is to successfully develop the kinds of projects which are difficult at the best of times in circumstances as a company of unusual uncertainty," he says.

"That obliges us to be, on the one hand, extremely aggressive in order to pull off these kind of projects, and on the other hand, extremely prudent to do so within the restraints of our obligations to shareholders."

The ability of British Gas to juggle these contradictions is ultimately likely to define its South American fortunes.

David Pilling



HELPING

SHAPE THE FUTURE

OFTEN REQUIRES

OPENNESS TO CHANGE

Featuring quality growth and substantially increased earnings, the 1995 balance sheet points to a year of achievements at Landesbank Rheinland-Pfalz. Our success reflects the Bank's solid business policies, resourcefulness in helping our clients profit from changes in market developments, and a sound approach to balancing risk and opportunity. Most of all, it illustrates the personal commitment of our staff to the highest standards of creativity and performance.

Group Preliminary Figures	1995	1994
Total Assets	DM billion	72.6
Balance Sheet Total	DM billion	71.1
Claims on Customers	DM billion	27.3
Liabilities	DM billion	42.1
Certified Liabilities	DM billion	20.6
Equity Capital	DM billion	2.3
Operating Income	DM million	231
Profit	DM million	114

These achievements will strengthen our resolve to provide our clients with the most effective banking and finance services available.

LANDESBANK RHEINLAND-PFALZ



Lucio Noto, Mobil chairman (right), joins BP's John Brown in celebrating the formation last month of an alliance

## Mobil plans more asset disposals

Mobil plans additional asset sales this year to complete a restructuring designed to cut operating costs and boost earnings. Reuter reports from New Orleans.

The US oil company's real estate operations and some US non-core producing fields are on the blocks; the final steps in a restructuring expected to cut costs by about \$1.3bn. Mr Lucio Noto, chairman, said at an energy conference.

"I wish I could tell you the restructuring is over. In my opinion it is not," he said. "I think we would be waving the flag of victory too early if I said it was over."

The company sold about \$2bn of assets in 1995. In 1996, Mr Noto said Mobil would sell the remainder of its plastics business and non-core petroleum properties in the US. Mobil's cost-saving goals did not include an additional \$100m to \$500m a year it expected from its planned European marketing and refining alliance with British Petroleum.

Mobil expects its restructuring to help boost earnings to \$3.2bn by 1998 and allow the company to meet a target of

more than 12 per cent growth in return on common equity during the period, Mr Noto said.

Mobil posted \$2.5bn in operating earnings in 1995, a 12.8 per cent return on common equity. The company expected the earnings growth to push its stock price to \$12.50 by 1998. Mr Noto said in early trading in New York yesterday the stock was changing hands at \$11.40 a share.

Since 1992, Mobil has pared staffing costs by \$5.5bn and reduced costs by \$500m. The company's restructuring is likely to include more downsizing. In 1995, restructuring and asset sales reduced the number of employees by 14 per cent, to 50,500.

Mr Noto said restructuring yielded net savings of \$300m in 1995. Operating earnings were up 2.8%.

Mobil has not relied on rising crude oil prices for its projected growth in earnings, and Mr Noto declined to predict prices. "We have stopped predicting crude prices," he said. "We use \$17. It's consistent with prices to the time of Adam and Eve."

## NEWS DIGEST

### Medtronic in deal to acquire InStent

Medtronic, a Minnesota pacemaker manufacturer, is to buy InStent, an Israeli maker of specialised medical equipment, in a deal valued at about \$200m. Medtronic will exchange 0.2563 of a share for each of the 10m InStent shares plus options outstanding.

InStent's stock gained 12.5 cents to \$22 in early trading on Nasdaq, while Medtronic was unchanged at \$37.50 on the New York Stock Exchange. The deal is valued at about \$200m. InStent, based in Minneapolis and Tel Aviv, manufactures stents, which are used to hold open such passages as the oesophagus or arteries. The company reported about \$2.1m in revenue for 1995, an increase of some 21 per cent over the previous year.

The principal shareholders of InStent, with about 35 per cent of the outstanding shares, have agreed to vote in favour of the transaction.

Reuter, Minneapolis

**Dealer ordered to repay \$7.8m**  
The National Association of Securities Dealers, the regulatory body for the US securities industry, has ordered Mr Franklin Wolf to repay \$7.8m to clients who were sold penny stocks in violation of Securities and Exchange Commission rules by his firm F. N. Wolf. Mr Wolf has been fined \$250,000 and barred from the industry for life. He is appealing to the SEC. Mr Wolf's firm filed for bankruptcy in 1994.

Ms Mary Schapiro, the newly appointed head of regulation at the NASD, said the decision was "necessary to protect the investing public and serve as a deterrent". She is regarded in the industry as "an aggressive regulator" although this case began long before her appointment.

The NASD found that F. N. Wolf sold shares in Nacoma Consolidated Industries to clients in violation of the SEC's penny stock rule. This rule defines penny stocks in a variety of ways, one being a share price of under \$5. Under the rules, brokers must receive written confirmation from customers that the stock is a suitable investment for them.

Magie Utley, New York

### Jamaican brewer in red

Desnoes and Geddes, the Jamaican brewer in which Guinness of the UK has a controlling interest, reported a US\$2.1m loss for the year ending December. Higher interest charges caused by depreciation of the Jamaican dollar and a strike late last year which temporarily closed the brewery were the main reasons for the loss.

Wage increases agreed by the company were higher than the inflation rate, while the prices of the company's products were increased at a rate below inflation, said Mr Terry Challenor, president. "For example, Red Stripe beer prices increased by only 15 per cent during the year, while inflation was around 25 per cent," he said. Red Stripe beer is the company's flagship product.

Canute James, Kingston

LVMH

MOËT HENNESSY - LOUIS VUITTON

### 10.3 % INCREASE IN NET INCOME

In 1995, consolidated net income of the LVMH Moët Hennessy Louis Vuitton Group totalled FRF 4,047 million, an increase of 10.3 % over the 1994 level.

Income from operations increased by 6 % to FRF 7,206 million.

Consolidated net sales of the LVMH Group amounted to FRF 29,775 million, an increase of 6.5 % over 1994

#### Key consolidated highlights

	1994	1995
Net sales	27,967	29,775
Income from operations	6,804	7,206
Net income, Group share, excluding unusual items	3,667	4,047

Sales of luxury products rose by 16 %, a much faster pace than the increase in sales of wines and spirits, - 5 %, illustrating the validity of the strategy followed by the Group since January 1994, at the time of the reorganization of its relationship with Guinness PLC, the British drinks group. Similarly, return on capital employed was significantly higher in luggage and perfumes than in wines and spirits.

These performances were achieved despite several unfavorable external factors.

- currency fluctuations had a negative impact on sales and income on a constant currency basis, sales would have increased by 11.7 % and consolidated net income by 25 %;

- slower economic growth in several key markets and strikes in France toward the end of the year affected the development of the Group's activities;

- Guinness PLC, of which LVMH is the largest shareholder with a 20 % interest, posted a 7 % drop in net income in 1995;

- higher corporate income tax rates in France decreased consolidated net income by nearly 2.5 %.

By segment of activity, the major highlights of 1995 were:

In FRF million	Consolidated highlights by segment of activity	
	1994	1995
Net sales		
Champagne and wines	5,712	5,836
Cognac and spirits	5,987	5,277
Luggage and leather goods	6,716	7,415
Perfumes and beauty products	7,686	9,277
Other, including holding company expenses	1,866	1,970
LVMH TOTAL	27,967	29,775
Income from operations		
Champagne and wines	837	1,016
Cognac and spirits	1,969	1,667
Luggage and leather goods	3,090	3,473
Perfumes and beauty products	1,113	1,254
Other	- 205	- 204
LVMH TOTAL	6,804	7,206

## LABORATOIRES BOIRON

## 1995 RESULTS

The Board of Directors, meeting on 21 March 1996 under the chairmanship of Mr. Christian BOIRON, approved the accounts for 1995 and reviewed the consolidated accounts. It was decided to hold the Annual General Meeting at 10.00 a.m. on 29 May 1996 in the PULLMAN PERRACHE HOTEL, Lyon 2.

CONSOLIDATED RESULTS  
(in FFr millions)

	1995	1994	% increase
Turnover	1,180.4	1,145.4	3.1%
Operating profit	153.1	130.0	17.7%
Profit on ordinary activities	141.0	114.0	23.6%
Net profit	62.7	58.9	6.3%
Cash flow	119.6	111.4	7.3%

## ACHIEVEMENTS

The contribution of the subsidiaries to the net profit continued to grow and amounted to FFr 14.2 million compared to FFr 9.8 million for 1994. This performance includes an exceptional tax saving of FFr 2.4 million related to investments in Italy.

Steps taken throughout the Group in previous years to improve cost control were continued in 1995 and were a major factor in the increased profit of ordinary activities.

Growth in net profit was constrained by various social and tax measures adopted in France, particularly the 10% corporate tax surcharge amounting to FFr 4.0 million and a provision of FFr 7.9 million, net of deferred tax, as an exceptional contribution from the pharmaceutical industry.

Shareholders' equity amounts to FFr 417.2 million and net financial debt amounts to FFr 29.9 million, despite the high level of investment during the year (FFr 134.7 million).

## DIVIDEND

The Board of Directors proposes to increase the dividend to FFr 9.0 per share, equivalent to FFr 33.5 per share inclusive of tax credit. This will be payable on 1 July 1996.

## OUTLOOK FOR 1996

The new production unit at Messancy commenced operating at the end of 1995, around one hundred staff are now on site. The capital expenditure programme will continue in 1996 with the renovation of the Sainte-Foy-les-Lyon site and the construction of a new office building.

The Group has benefited from both a healthy level of business since the start of the year, particularly in its international operations, and the relative stability of the currency markets.

For the full year 1995, the Group forecasts further growth in turnover and net profit despite the additional costs relating to the new unit at Messancy.

Investor relations:  
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20, rue de la Libération 76310 STE-FOY-les-LYON, FRANCE

"HEALTH THROUGH HOMEOPATHY"

The Export-Import Bank of Korea  
US\$100,000,000

## Floating Rate Notes Due 1997

In accordance with the provisions of the Floating Rate Notes, notice is hereby given as follows:

Interest Period : March 28, 1996 to September 26, 1996 (184 days)

Rate of Interest : 5.5525% per annum

Coupon Amount : US\$2,843.06

(per note of US\$100,000)

US\$7,107.64

(per note of US\$260,000)

Agent  
LTCB Asia Limited

Prices of floating rate notes for the prepayment of our floating rate notes in English and Korean	
Interest Period : March 28, 1996 to September 26, 1996 (184 days)	
Interest	Interest
Rate of Interest : 5.5525% per annum	5.5525% per annum
Coupon Amount : US\$2,843.06	US\$7,107.64
(per note of US\$100,000)	(per note of US\$260,000)
Agent LTCB Asia Limited	

WOOLWICH  
BUILDING SOCIETY

## £200,000,000

## Floating Rate Notes due 1999

In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the three month period ending 31st June 1996 has been fixed at 6.75% per annum. The interest accruing for such three month period will be £157.10 per £10,000 Bearer Note, and £1,571.00 per £100,000 Bearer Note, on 31st June 1996 against presentation of Coupon No. 4.



London Branch  
Agent Bank

21st March, 1996

## CONTRACTS &amp; TENDERS

## Advertisement

INVITATION FOR BIDS FOR THE SUPPLY OF  
TWENTY NINE (29) MOTOR CARS  
AND EIGHT (8) MINIBUSES

1. The Government of the Republic of Turkey has received Loan No. 3541-TU from the World Bank in various currencies towards the cost of the Employment and Training Project and it is intended that part of the proceeds of this loan will be applied to eligible payments under a contract for supply of Motor Vehicles.

2. The Turkish Employment Organisation now invites sealed bids from eligible bidders for the supply of twenty nine (29) MOTOR CARS and eight (8) MINIBUSES by International Competitive Bidding.

3. Interested eligible bidders may obtain further information from and inspect the Bid Documents at the office of:

General Directorate of the Turkish Employment Organisation  
(i.e. İcili Bulma Kurumu Genel Müdürlüğü),  
Employment & Training Project, Project Co-ordination Unit,  
Atatürk Bulvarı No. 133, Kat 7,  
06640 Bakırkılık, ANKARA, Turkey  
Tel: 00-90-(312) 418 17 72

4. A complete set of bidding documents may be purchased on the submission of a written application to the above address and upon payment of a non-refundable fee of US\$50 or equivalent Turkish Lira. The fee will be paid to Garanti Bankası, Yenisehir Subesi, Sube kodu 170, Milli Mütäfak Cad. No. 4 Yenisehir 06440-Ankara, Telephone: 00-90-(312) 418 90 17, Fax: 00-90-(312) 418 55 78, Project Co-ordination Unit Account No. 6202586-1. The original receipt for this payment will be presented to the Project Co-ordination Unit when the bidding documents are collected.

5. The provisions in the Instructions to Bidders and in the General Conditions of Contract are the provisions of the *World Bank Standard bidding documents: Procurement of Goods*.

6. Each bid must be delivered to the above office on or before 12.00 hours on Monday, 20 May 1996 and must be accompanied by a bid security of 2% of Bid Amount.

7. Bids will be opened in the presence of those bidders' representatives who choose to attend at 14.00 hours on Monday, 20 May 1996 at the above address.

## COMPANIES AND FINANCE: UK

Orders up 6% in first quarter and European growth seen for second half

## Morgan Crucible eyes acquisitions

By Peter Marsh

Morgan Crucible, the speciality materials and engineering group, is poised for further acquisitions in emerging markets such as south-east Asia and eastern Europe, the company said yesterday.

The company is also planning to sell "non-core" businesses – such as those related to defence – worth an estimated £35m (£45m).

Pre-tax profit in the year to January 4 was £25m, in line with expectations, up from £22.6m.

Mr Bruce Farmer, managing director, said orders in the first three months of 1996 were up roughly 6 per cent on the equivalent period last year.

He felt the economic outlook in continental Europe would improve this year, which could lift second-half results.

He said price increases, new product development and continuing emphasis on cost control had contributed to a further

increase in operating margins.

Turnover advanced by 6.6 per cent to £247.8m, although the rise was 14.8 per cent excluding businesses sold in 1994.

Operating margin improved from 10.5 per cent to 12 per cent.

One bleak spot for the company concerned its production of specialist materials in the US for the defence industry where demand fell away.

Operating profits for the whole of the speciality materials arm fell to £16m (£17m) on like-for-like sales of £156.1m, against £144.9m.

The company said its carbon division, which produces items mainly for use in electrical devices such as motors, had an "excellent" year.

Operating profit increased 26.9 per cent to £24.1m (£1.7m) on sales up from £149.4m to £196.3m.

In technical ceramics, operating profit was £24.4m (£18.9m). Sales were £218.3m

in 1995, up from £188.6m.

The thermal ceramics division turned in operating profits of £37m, compared with £25.1m, on turnover higher at

£209.3m (£225.2m).

Earnings per share were up 14 per cent to 25.2p (22.1p). A final dividend of 7.55p makes a total of 13.8p, up from

13.1p.

Prospective pre-tax profits for this year are estimated at £97m, giving a forward p/e of about 15.

**Simon Engineering**

**Simon Engineering**

Share price relative to the  
FT-SE-A Engineering Index

Source: FT Data

## Simon Engineering returns to black

By Geoff Dyer

Simon Engineering, the process plant, mobile platform and storage group, yesterday recorded its first profit since 1991 and announced its return to the dividend list. The return to the black with 1995 pre-tax profits of £9.4m (£12m) compared with losses of £1.8m the previous year. Turnover was flat at £219.1m (£214.2m).

Mr Maurice Dixon, chief executive, said the group had now completed its restructuring programme which involved selling 14 businesses since

December 1993 and reducing the workforce by a third.

The improved results were based on an increase in operating profits to £8.5m (£1.2m) at the US business of Simon Access, the gantry and mobile platform division. Losses from the non-US part were reduced to £6.2m (£10.9m), benefiting from sales of new products, particularly firefighting equipment.

Mr Dixon disclosed that one of the group's US banks had refused to extend a \$15m (£9.3m) banking facility which expires at the end of this

month. Net debts were £75.1m, giving gearing of 94.5 per cent (94.2 per cent).

Simon Storage, the bulk storage business, improved profits to £11.1m (£9.5m). Mr Dixon said that the group was looking to develop the Killingholme site on the Humber into a new deep water port at a cost of £18m.

Simon Carves, the process engineering arm, turned £500,000 of losses into profits of £1.5m.

Analysts forecast that the group would make pre-tax profits of about £16m this year.

Burmah in  
£24m  
disposal  
to Norsk

By Motoko Rich

Burmah Castrol, the lubricants, chemicals and fuels group, is selling its service station business in Sweden to Norsk Hydro, Norway's biggest quoted company, for £24m (\$37m).

Filling station disposals have so far raised nearly £160m. Last month the group announced the sale of its networks in Turkey and Chile for £44.2m and £22m respectively. Last July, it sold its UK bus business to Frost Group for £23m.

Burmah said it had decided to sell the Swedish network because trading conditions had deteriorated and competition had intensified. Mr Jonathan Fry, chief executive, said: "Norsk Hydro, by virtue of its larger share of the Swedish market, is in a good position to develop the business for the longer term."

At present Norsk runs 220 stations in Sweden, with about 8 per cent of the market. The Burmah purchase will take its share to 11 per cent.

Burmah has remaining fuel businesses in Australia, Belgium and the Republic of Ireland. The company said the Belgian and Irish businesses were so small that they were integrated with the lubricants divisions in those countries.

"If someone came along and offered us a lot of money we would extricate them but that is not likely in the near future," it said.

## RESULTS

	Turnover (£m)	Pre-tax profit (£m)	EPS (£)	Current payment (£)	Dividends corresponding dividend	Total for year (£m)	Total last year (£m)
Almon	Yr to Jan 27	101.9	95.1	2.03	(\$86.4)	3.26	(\$22.1)
Bonne End Preps	Yr to Dec 31	15.6	10.2	1.94	(\$40.1)	1.45	(\$1.0)
Calderwood Invrs	14 miles to Dec 31+	10.1	6.03	0.465	(\$17.9)	3.02	(\$2.6)
Capital & Regional	Yr to Dec 25	10.1	1.2	0.474	(\$4.15)	8.85	(\$7.7)
Chair Control	6 miles to Dec 24	8.38	1.25	1.017	(\$1.07)	5.2	(\$0.7)
Drumatik	Yr to Dec 31	0.785	3.47	0.9881	(\$0.8)	2.61	(\$0.1)
Forrest							

دكشان الأجل

## COMPANIES AND FINANCE: UK

Sale of testing services could raise £300m and leave net cash

## Inchcape looks to distribution

By David Wighton

Inchcape could raise more than £300m (\$450m) from the sale of its testing services division as part of a strategy unveiled yesterday of focusing on its distribution businesses.

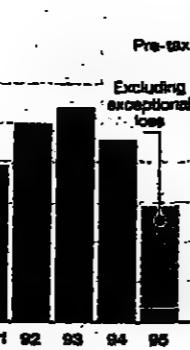
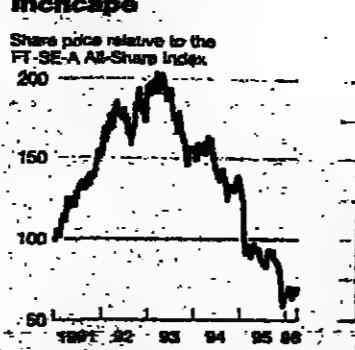
The group announced the proposed sale and confirmed the departure of chief executive Mr Charles Mackay, 55, as it revealed a 36 per cent drop in annual profit to £146.8m before exceptional charges.

Sir Colin Marshall, who has been conducting a strategic review since becoming chairman in January, said that focusing on a limited number of potentially larger international businesses would ensure that management effort was spent in the most appropriate areas.

He added that the sale of

## Inchcape

Shares price relative to the FT-SE-A All-Shares Index



testing services and the proposed flotation or demerger of Bain Hogg, the insurance broking arm - both planned for this year - would "increase the group's financial flexibility to support these businesses and

exploit the major growth opportunities they offer". Analysts estimated that testing services could raise more than £200m; if Inchcape opted for a flotation of Bain Hogg it could bring in another £250m, leaving the group with net cash.

Analysts said Mr Mackay was paying the price for the slump in Inchcape's underlying profits, which have almost halved over the past two years.

Trading conditions had continued to deteriorate in some areas, said Sir Colin, but Inchcape's actions and those of its suppliers and the weaker yen would "progressively benefit" the group during the second half.

Sir Colin also announced that the management of its marketing division, centralised in London in 1992, will be moved back to Asia. Inchcape will also consider the introduction of new partners or local shareholders to add value and improve the stability and growth of the marketing business.

## SB chief given £0.85m for relocation costs

By Daniel Green

Many is based in the UK, but has extensive operations in the US.

The accounts also show payments to two former directors of £3.2m in 1995. Mr Bob Bauman, Mr Leschly's predecessor as chief executive, received £2.8m, of which £1.85m related to the costs of moving and did not cover buying any property.

The relocation expenses paid in 1994 were disclosed in the company's 1993 annual report, published yesterday. Companies normally pay top executives relocation expenses but this is one of the biggest amounts.

The UK's second-biggest drugs company also disclosed that Mr Leschly was paid £1.8m in 1995. His basic £800,000 was supplemented by a £928,000 bonus and £75,000 in other benefits. That compared with a £2.1m package in 1994 including the relocation costs.

The German company originally paid 120p, or £11.4m, for a 15 per cent stake in Birse when the UK company was floated in 1989. It paid a further £1.8m in 1993 when the group raised £24m through a share placing to strengthen a weakened balance sheet. Birfing's stake, as a result, was cut to just under 10 per cent.

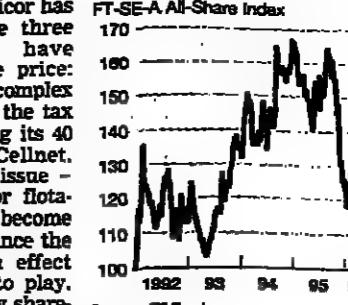
It has been a long wait for Securicor shareholders, but it will have been worth it. At one fell swoop, Securicor has resolved two of the three core issues that have

## LEX COMMENT

## Securicor

## Securicor Group

A share price relative to the FT-SE-A All-Shares Index



Source: FT Exm

## Bilfinger loses £9m on Birse sale

By Andrew Taylor, Construction Correspondent

Bilfinger & Birger, the large German construction group, is estimated to have incurred a £9m (\$14m) loss on the sale of its 9.7 per cent stake in Birse, the UK construction group.

It joins a number of continental European construction groups which have made large losses after purchasing stakes in UK building and civil engineering groups in the mid to late 1980s.

Bilfinger's shares have been placed at 20.25p each with investment clients of stockbrokers Cazenove.

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The sector has long been one of the best payers to top executives. Mr Bauman was one of the first chief executives of a UK company to receive a £1m-a-year pay package in late 1995.

Last week, the 1995 annual report from Glaxo Wellcome, the world's largest pharmaceuticals company by sales, revealed that Sir Richard Sykes, chief executive, had been paid £2.15m in the 18 months to the end of 1995.

In addition to his 1995 pay packet, Mr Leschly received £386,000 (£229,000) in pension contributions.

Other SB directors fared less well. Mr George Poste, head of research and development, saw his pay cut to £714,000 (£21m).

OF COURSE  
YOU NEED AN  
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KEEN BRAINS  
TO COME UP  
WITH THE  
ANSWERS  
BUT YOU ALSO  
NEED ONE  
WITH THE  
FINANCIAL  
STRENGTH TO  
PUT ITS MONEY  
WHERE ITS  
ADVICE IS

## DIGEST

## Securicor simplifies capital structure

Securicor, the security, parcels and communications group, pleased investors yesterday by announcing long-awaited proposals to simplify its complex capital structure.

The assets and businesses of Securicor and its majority-owned subsidiary, Security Services, are to be transferred to a new holding company and the four classes of share capital are to be converted into one.

Shares rose strongly after analysts said the new capital structure made a takeover bid for the group more possible. The market was also pleased by a statement from Securicor that any future sale of its 40 per cent stake in the Celnet mobile telephone network, would not result in a tax liability.

Geoff Dyer

## Strong demand lifts Vero

Strong demand from the telecommunications and electronics industries helped Vero Group, the manufacturer of specialist racks and enclosures which floated on the stock market in November, increase its pre-tax profits by 23 per cent from £2.6m to £2.11m (\$3.24m). However, the figure included a £3.2m exceptional charge for an employee profit-sharing scheme, without which profits rose 71 per cent to £1.8m. Turnover increased 23 per cent to £97.2m.

Supplies to the mobile telecoms business, up 40 per cent during the year, rose from 19 to 21 per cent as a proportion of group sales.

Capital expenditure of £4.6m during the year included expansion of the group's Uxbridge plant to allow assembly of digital mobile base station sub-racks and enclosures for Ericsson. The Swedish electronics group is Vero's largest customer, accounting for about 16 per cent of revenues.

In continental Europe, there was a recovery in Germany and smaller improvements across the group's other markets. Vero also expanded production capacity at its Connecticut facility in the US. New distributors were appointed in Taiwan and Japan, while the group took a 38 per cent stake in an Indian electronics packaging manufacturer.

Christopher Price

## Slough to reshuffle management

Slough Estates, one of the UK's largest property companies, is preparing for a reshuffle which is expected to lead to the departure of one of its most senior managers. Sir Nigel Mobs, chairman and chief executive for 20 years, will step down from the latter post in favour of Mr Derek Wilson, currently managing director.

Mr Roger Carew, also managing director and tipped to succeed Sir Nigel, is expected to leave. The reshuffle clears the way for Mr Wilson to head Slough Estates when Sir Nigel retires as executive chairman.

It also brings the company into line with the recommendations of the Cadbury Committee on corporate governance which recommended splitting the roles of chairman and chief executive.

Simon London

## Williams makes security buys

Williams, the international industrial holdings group, is strengthening its position in the European and North American security market with two acquisitions.

The group, which owns the Yale brand, has paid \$1.1m for Folger Adam, the US prison security lock and high security window specialist. It has assets of about \$1.4m and has been operating in Chapter 11.

Williams has agreed to pay £1.8m for Corni Serratura, the Modena-based locksmith which has been under court administration. The deal is subject to court and creditor approval and confirmation of asset valuations.

## 'Horrible year' for Hodder

Mr Tim Holy Hutchinson, chief executive of Hodder Headline, the UK publishing group, is happy to have left 1995 behind. "It was a horrible year. The retail, book club, library and schools market all went soft at the same time," he said as announcing a 30 per cent fall in 1995 pre-tax profits to £5.7m (\$8.72m).

Unperceived sales slippage reduced print runs and also hit gross margins through clearances of excess stock and resulting provisions. Hodder said it would continue to take action on margins and overheads.

Raymond Snoddy

## Dmatek losses increase

Dmatek, the Israeli-based software company that joined Aim through a placing in December, announced pre-tax losses of \$3.47m on sales of \$785,000 for 1995. Losses last time were \$988,000 on turnover of \$212,000.

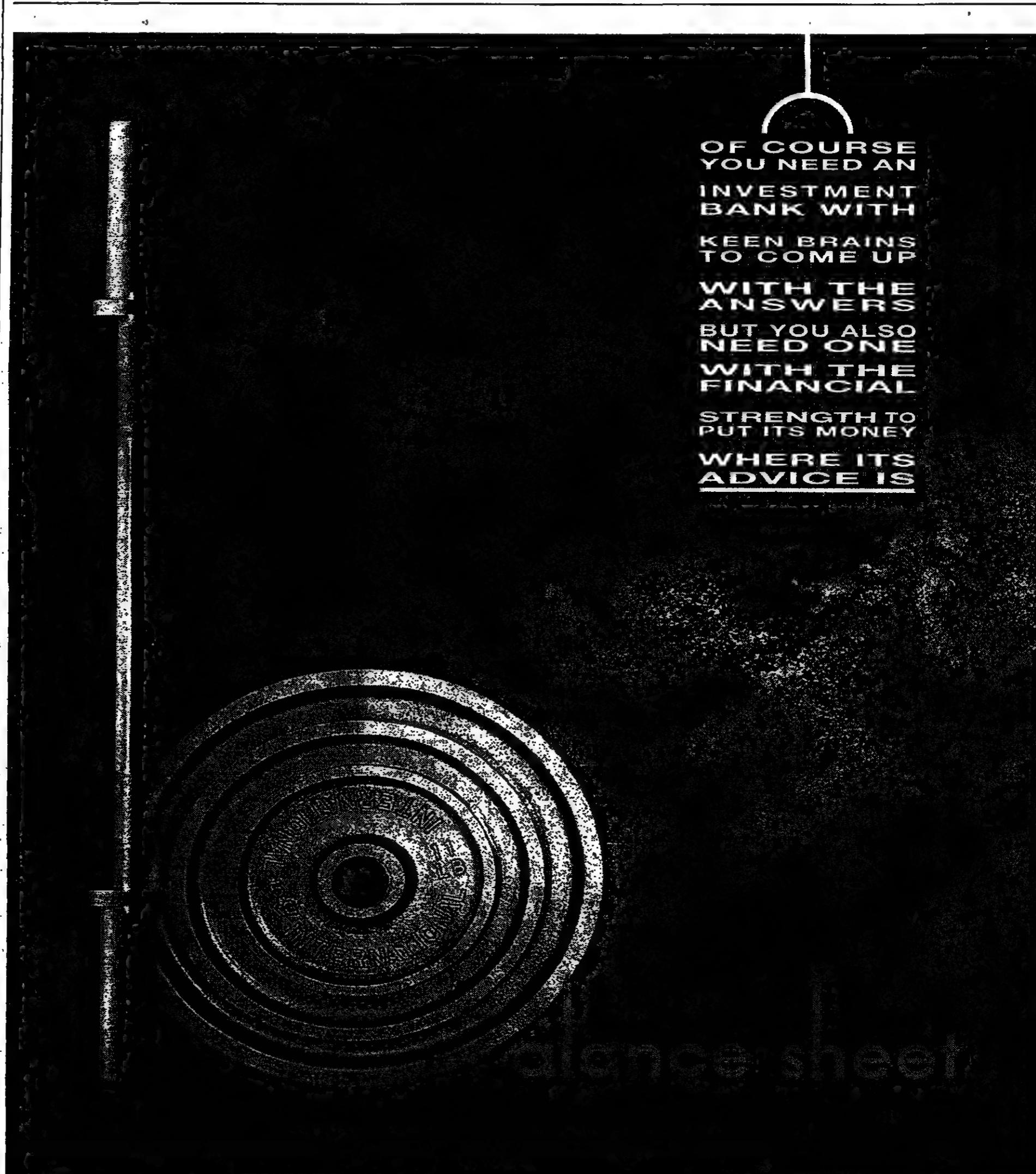
It has won a contract for electronic monitoring of house arrest in the US, where sales last year were \$360,000. Sales in Israel were \$278,000 and in Europe, \$147,000. Losses per share deepened to 26 cents (8 cents).

Raymond Snoddy

## Indonesian expansion for C&amp;W

Cable & Wireless, the UK-based international telecommunications group, is to acquire a 25 per cent stake in an consortium which will build and operate a fixed and wireless telephone network in Indonesia's Kalimantan region. The state in the Daya Mitra Malindo Kalimantan KSO consortium represents its first investment in the fast-expanding Indonesian telecom market and plugs a gap in the group's South East Asia operations.

Paul Taylor



INVESTMENT BANKING. FROM A TO Z



REGULATED BY SFA AND IMRO

A DIVISION OF BARCLAYS BANK PLC

## Ban on drug imports valid

**EUROPEAN COURT**  
The European Court of Justice has ruled in favour of a Belgian prohibition on the importation of veterinary medicines from other European Union states in cases where they were not authorised in Belgium. The ruling arose out of proceedings brought by groups which included vets, dispensing chemists and a company specialising in supplying chemists in Belgium with medicines not authorised in Belgium but authorised in France.

They applied to the Belgian Conseil d'Etat for an order annulling the Belgian legislation which prohibited all imports of unauthorised medicinal products apart from certain exceptions. The Belgian court referred the cases to the European Court, asking whether it was possible for a member state to prohibit the import of a medicinal product, where its marketing had not been approved by the competent national authority.

The European directives in this field were intended to harmonise the legislation of EU states on veterinary medicinal products and, in particular, the conditions governing the authorisation for their marketing. They recognised that the primary purpose of such rules was the safeguarding of public health, and the remaining barriers to freedom of movement should be gradually removed.

A recent directive established a European Agency for the Evaluation of Medicinal Products and sought to ensure that authorisation to place a medicinal product on the market in one state was in principle recognised by the competent authorities of the others. The veterinary groups relied on four main arguments. First, they submitted that since the directives did not provide for full harmonisation of all national measures, they left room for the application of Treaty of Rome principles governing the free movement of goods. The court rejected that argument and observed that the wording of the directives meant only that the system of multiple national authorisa-

C-297/94: *Brugere and others v Belgium, ECJ 1CH, March 21 1996*

BRICK COURT CHAMBERS, BRUSSELS



### SPOT THE REFUGEE

There he is. Fourth row, second from the left. The one with the moustache. Obvious really.

Maybe not. The unsavoury-looking character you're looking at is more likely to be your average neighbourhood slob with a grubby vest and a weekend's stubble on his chin.

And the real refugee could just as easily be the clean-cut fellow on his left.

You see, refugees are just like you and me.

Except for one thing.



United Nations High Commissioner for Refugees

Everything they once had has been left behind. Home, family, possessions, all gone. They have nothing.

But we are asking that you keep an open mind. And a smile of welcome.

It may not seem much. But to a refugee it can mean everything.

UNHCR is a strictly humanitarian organization funded only by voluntary contributions. Currently it is responsible for more than 19 million refugees around the world.

UNHCR Public Information  
P.O. Box 2500  
1211 Geneva 2, Switzerland

## INTERNATIONAL PEOPLE

### Kvaerner names oil & gas team



Kvaerner, the Norwegian engineering and shipbuilding company, has named new executives to head its oil and gas division, which is due to be bolstered by the recent agreed takeover of Britain's Trafalgar House group. Tore Bergersen (above) has been named executive vice president in overall charge of a new regional structure into which the merged oil and gas operations of the two groups will be put. He will be based in London.

Ingebrigt Moun will lead the Norwegian region, with Graham Gottsche the head of the international region and Frank Chapman, a new recruit from Shell, due to take over the UK operations.

The merged operation will be among the world's biggest offshore oil and gas fabricators, rivalling market leaders Brown & Root and McDermott of the US. Robert Corrigan

### Air Canada's pilot

Another American will soon take the helm at Canada's biggest airline. Lamar Durrett, 56, takes over in May as chief executive of Air Canada. He replaces Hollis Harris, 53, the Georgia-born Delta and Continental executive, who has turned the airline round

since he took the controls in 1992. Durrett, who moved from Delta to Air Canada with Harris, is Air Canada's chief administrative office and has long been regarded as Harris's protege. Durrett, who comes from Atlanta, has broad experience of running technical and administrative operations at several US airlines including Delta and Continental.

Although Air Canada is in a much stronger position than it was when Harris and Durrett moved in, it still faces fierce price cutting in its domestic markets at a time when it is trying to expand further into the US and Asia. Harris will continue as executive chairman but there has been speculation that he may also set up a new low cost carrier in the US. Robert Gibbons

### Saison succession

Seiji Tsutsumi, founder of Japan's Saison Group, has taken over as chairman and chief executive of his group's Inter-Continental Hotels and Resorts chain, following the death of Shuaki Takaoka.

Inter-Continental, which operates 170 hotels in 57 countries, is probably the oldest of the big international hotel chains. Set up by Pan American Airways in 1946, it has changed hands several times and was owned by Britain's Grand Metropolitan before being sold to Saison in 1989.

Saison, a privately-owned conglomerate controlling nearly 200 companies, is planning to float the intercontinental Hotel management business on the international stock market

next year. Tsutsumi says that he plans no change to the strategies, structure and organisation which have been put in place by Takaoka, 67, who has headed the hotel chain for the last four years. William Hall

### Beltrami takes chair

Ottorino Beltrami, 79, has been promoted from deputy chairman to chairman of the charitable foundation which owns Cariplo, one of Italy's largest banks. His predecessor, Roberto Mazzola, stepped down from an operational role two years ago after he was implicated in a Milanese corruption investigation.

Beltrami was chosen as one of the few politically neutral members of the foundation's board, most members of which are nominated by the local and regional authorities in Milan and Lombardy. He may well have to preside over the partial privatisation of the Milan-based bank, announced last year. Andrew Hill

### Citibank departure

Citibank's head of European real estate has resigned from the US bank following a management reshuffle. Jeff Heintz, managing director of Citibank's European real estate group, has left the bank to set up his own property consultancy.

Under Heintz, Citibank was actively involved in European property markets both as a lender and as an equity investor. It backed landmark projects such as the development of Frank

furt's 60-storey Messeturm office tower, which is widely regarded as one of the most profitable European office developments of the last decade. Heintz's role has been filled by John McLean, the Canadian banker responsible for Citibank's stake in Canary Wharf, the office development in London's Docklands which was sold last year to an international consortium for \$200m. Simon London

### Lewis's revolving role

John Lewis, Amdahl's chairman, has taken on the additional roles of president and chief executive of the California-based mainframe manufacturer, following the surprise departure of Joseph Zemke who has resigned "for personal reasons".

For Lewis, 60, who joined Amdahl as president in 1987, this will be the second time he has held the dual role of president and chief executive. He became chairman in 1987, and served as chief executive from 1983 to 1992.

Zemke, who joined Amdahl in 1985 as chief operating officer, first succeeded Lewis as president in 1987 and then as chief executive in 1992.

Under his leadership, Amdahl, which is 44 per cent owned by Fujitsu of Japan, has been attempting to modernise its product portfolio and make the transition from being an old-style manufacturer of IBM-compatible mainframe computers to a broader-based computer group.

Commenting on the changes, Lewis paid tribute to Zemke, who had, he said, "positioned the company well to take advantage of the dynamic markets we are now able to address." Paul Taylor

### Goldstein's new card

Sears, Roebuck, the US retailing giant, has underlined its commitment to strengthen its credit card business by poaching Steven Goldstein from American Express.

Goldstein, 44, who resigned as chairman and chief executive of American Express Bank in February, is joining as president, credit.

He succeeds James Thompson, who

was recently named president of Sears Home Services. Prior to joining American Express Bank, Goldstein had worked in the American Express card business, and Citicorp's consumer services group.

### Ricoh's president

Ricoh, the Japanese office equipment maker, has appointed the former head of its European operations as its next president. Masamitsu Sakurai, 54, general manager for research and development at Ricoh, takes over as president on April 1 when Hiroshi Hamada, 62, the current president, moves up to chairman.

Roy Arnes, vice president, manufacturing and technology, WAAG, becomes president of the Greater China operating region, based in Hong Kong.

Lance Brown, Hong Kong-based regional director for PowerGen, has been appointed STANDARD CHARTERED BANK chief executive for China and Macau. Brown, who speaks fluent Mandarin, will be based in China.

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## COMMODITIES AND AGRICULTURE

## OECD forecasts increased grain price volatility

By Richard Moorey

World grain prices are likely to become increasingly volatile over the next few years in spite of a recovery in stock levels, according to the Organisation for Economic Co-operation and Development.

"Low stocks, tight supplies, robust demand and unusually high prices" characterised international cereal markets at the beginning of the five-year period discussed by the OECD in its latest Agricultural Outlook report; the organisation said yesterday.

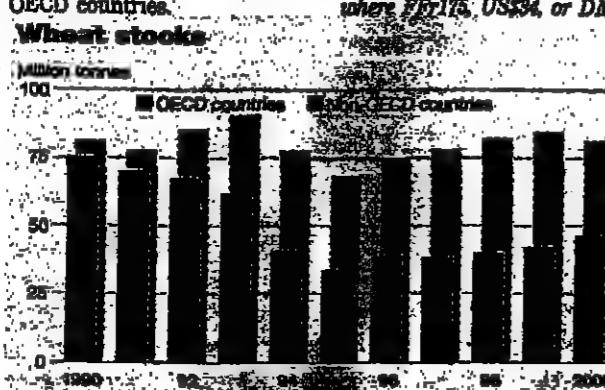
It added, however, that that trend was unlikely to last.

"High prices will ration demand and stimulate additional supplies," it explained, "and world wheat and coarse grain prices will fall from their current highs over the medium term. They are, nevertheless, expected to remain well above average."

World grain stocks, which recently fell to 20-year lows, were likely to increase again, the OECD said. But they would remain below historical levels, "opening the possibilities for increased price volatility over the medium term".

The report suggests that high feed costs will lead to slower growth in pork and poultry production in most OECD countries.

### Wheat stocks



Compiled from Reuters

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## INTERNATIONAL CAPITAL MARKETS

## State election results lift bund prices

By Antonio Sharpe in London and Lisa Bransten in New York

German government bonds surged yesterday on the back of what the market regarded as positive results in three state elections. The governing CDU and FDP coalition parties did better than expected while the main opposition SPD party suffered significant losses after attempting to exploit fears over European economic and monetary union.

Ms Phyllis Reed, European bond strategist at BZW, said although the results meant that Envi was now more likely to happen in 1999 - an event which has been unnerving the market in recent months - an SPD/Green government was less likely. And the market fears the latter more," she said.

Mr Graham McDevitt, senior bond strategist at Paribas Capital Markets, said the election result was the necessary trigger for bonds to rebound after the losses suffered in recent weeks. "Bonds were primed to move higher," he said.

Bonds were also lifted by a picture of steady inflation in Germany which fanned expectations that the Bundesbank

could cut official interest rates after its council meeting on Thursday. While many analysts believe that the Bundesbank will hold off until April or May, expectations of a rate cut this week are likely to grow in the run-up to Thursday's meeting.

Mr Stuart Thomson, international economist at Nikko Europe, expects the Bundesbank to cut the discount rate by 50 basis points to 3.5 per cent on Thursday, bringing the rate down to the previous post-war low set in 1987. He also expects 50 basis points off the Lombard rate to 4.5 per cent and the minimum repo rate to be fixed 20 basis points lower at a new low of 3.10 per cent.

On Liffe, the June bund contract rose 8.75 to 105.50 but the

spread over bonds widened to 180 basis points, from 170 basis points before the BSE scare broke late last week.

Mr Andrew Roberts, gilts analyst at UBS, said as long as BSE remained an issue for the market, both in terms of a higher UK PSBR and trade deficit, it would be difficult for gilts to make up the under-performance.

However, he did not believe that the BSE issue would cause serious problems for tomorrow's £23m auction of 7 per cent stock due 2001 since there was widespread demand for short-dated paper.

He also forecast that the spread over Treasuries could

wide to as much as 20 basis points in the near term as the US market sprinted ahead, but thereafter he expected bonds to trade through Treasuries.

■ Continued concerns about the impact of mad cow disease on the UK government's finances restricted gains in the UK government bond market.

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## GOVERNMENT BONDS

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However, he did not believe that the BSE issue would cause serious problems for tomorrow's £23m auction of 7 per cent stock due 2001 since there was widespread demand for short-dated paper.

He said five-year gilts were looking cheap against their German and French counterparts but added that the 140 days of accrued income on the stock could put off some institutional investors.

■ French government bonds recovered from their weakness last week as traders sought to profit from what they perceived to be an over-sold situation. The market's strength caused the spread over Germany to narrow to about 21 basis points from close to 30 points late last week.

On Matif, the June 10-year national government bond contract rose 1.04 to 121.60.

■ Technical buying helped US Treasury bonds reverse some of the losses made over the past two weeks in early trading, despite data showing that home buying picked up in February.

Near midday, the benchmark 30-year Treasury was up 15 at 92.15 to yield 6.571 per cent, the lowest yield since the day before the market was jolted by surprisingly strong employment figures that suggested the economy was picking up

more quickly than most analysts believed. At the short end of the maturity spectrum, the two-year note was 5% stronger than 92, yielding 5.660 per cent.

Mr Kevin Sluder, senior fixed-income trader at First Chicago NBD, said that strength in German bonds had helped the US markets.

Later, when the price of the June long bond future climbed over 112 - which was considered a technical resistance level - there was a wave of buying that the market managed to hold through the morning.

Mr Sluder added, however, that most of the activity he had seen was short-term trading, not longer-term commitments to the market, so he did not see yesterday's upturn as the end of the bear market.

Bonds managed to shrug off figures showing that existing home sales rose 6.5 per cent to a seasonally adjusted rate of 3.96m in January, the first increase since September of last year. Mr Elliott Platt of Donaldson Lufkin & Jenrette attributed the increase to a rebound from January weakness and fears that mortgage rates were about to rise.

## Five-year Disney paper outperforms longer tranche

By Samer Iskander

The two-tranche global deal launched on Friday by CSFB and Merrill Lynch on behalf of the Walt Disney Company was still the subject of most discussion in trading rooms yesterday as the week got off to a slow start.

Syndicate managers described it as a "total success" and a "blow-out". In the afternoon, the spreads over US Treasuries had tightened by 2 basis points and 1 basis point to 33 and 46 points respectively for the five-year and the 10-year maturities.

Demand from Europe was strong for the shorter-dated bonds, while the 10-year paper was mainly targeted at US investors. This made observers predict that "the five-year paper has started - and will probably continue - to outperform the 10-year".

However, a few syndicate managers complained about the size increase which, some said, made clients withdraw

orders. The amount was initially set at \$1.5bn, but was subsequently increased to \$2bn, and then to \$2.5bn a few hours after the announcement.

The sterling market saw only one transaction, a retail targeted three-year issue by LB Schleswig-Holstein, paying a 7% per cent coupon.

## INTERNATIONAL BONDS

The lead manager, HSBC Markets, saw strong demand from Europe, where the issuer is seen as "an appealing retail name", but expects it will take time before the whole amount filters through to final investors.

The Republic of Argentina took heart from the success of its recent issue in D-Marks and tapped the European market again yesterday, with a five-year deal in Austrian schillings.

The Nordic Investment Bank seized a swap opportunity in

## Indian stock markets see record foreign inflows

By Mark Nicholson

In New Delhi

Recent foreign interest in India's stock markets prompted a record net monthly portfolio investment inflow of \$45m in February, according to Mr Pratip Kar, executive director of the Securities and Exchange Board of India (SEBI), the market watchdog.

Mr Kar said total net inflows since the stock markets were opened to investment by foreign institutions in 1993 had now exceeded \$5bn.

He added that net flows recorded so far this month had reached \$140m, continuing a strong buying pattern by foreign

institutional investors which began in December.

The present rush is India's second peak of foreign interest since pioneering funds entered the market between November 1983 and October 1994, during which more than \$2.3bn was ploughed into Indian equities.

January 1994 saw a previous monthly record of \$389m invested.

Although there has never been a net monthly outflow of funds since 1983, foreign interest dwindled from November 1994 and monthly inflows hit a low of \$48m in November last year.

Mr Kar said new foreign entrants, mostly from the US,

were behind the latest inflow, attracted by perceptions that the market was both historically cheap for India and relatively so in Asia.

The broad Indian market was trading at a prospective price-earnings ratio of around 10 late last year, and many foreign investors also took advantage of a weaker rupee earlier this year to buy into the market.

"We found a lot of new foreign institutional investors who found new confidence in the Indian economy," Mr Kar told a Delhi business audience.

He said total inflows for the fiscal year ending in April would reach \$2bn.

Mr Kar said both SEBI and India's main markets, which

number more than 20, were addressing foreign investors' main concerns about the Indian exchange, namely the long and problematic settlement procedures, arduous and erratic share registration procedures and a high level of "bad deliveries".

He said the BSE had recently halved its settlement period to match the seven days offered by the rival National Stock Exchange. India's first automated and paperless share depositories, could be in place by the end of this year, he said, and the SEBI has also demanded that all Indian exchanges complete moves to on-screen trading by June.

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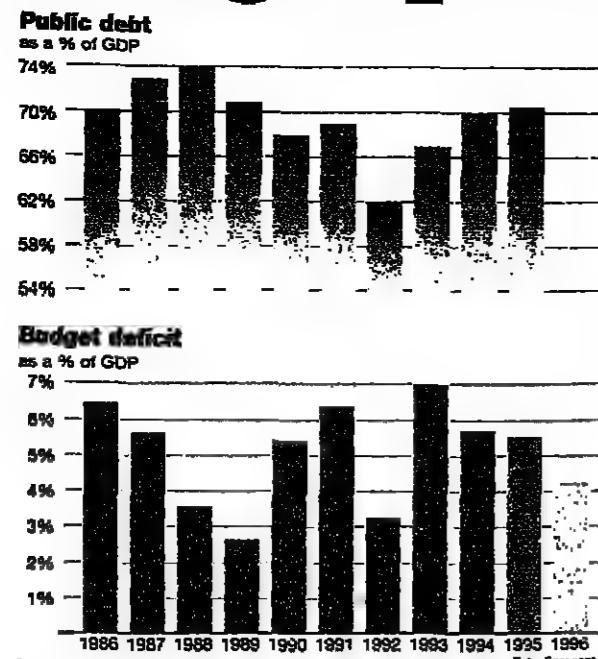
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## 2 PORTUGUESE BANKING AND FINANCE

The economy: by Peter Wise

## Budget passes its first hurdle



The government has broadly lived up to its promises. But its goals may still be out of reach

Mr António Guterres, Portugal's socialist prime minister, undertook what critics said was an impossible task when his centre-left government assumed office last November. He promised a 1996 budget that - without raising taxes - would both increase social spending and cut the fiscal deficit to meet the convergence criteria for European monetary union.

Even if such a budget could be put together, detractors said, it would either divide the government or be rejected by parliament, where the ruling Socialists are four seats short of an overall majority and the opposition parties could not easily support the proposals without loss of face.

The scorn heaped on the government's ambitions clearly added plausibility to the satisfaction felt by Mr António Sousa Franco, the finance minister, when the bill was approved in parliament this month and he was able to wave before his opponents a copy of what they had previously called "the impossible budget".

Not only did the government remain united behind the budget, which was approved after a deal on relatively minor taxation adjustments between the Socialists and the right-wing Popular party, but the proposals also won the support of business organisations as being close to the best compromise possible for the Portuguese economy.

Against the expectations of many, the government has delivered proposals that broadly live up to what it had promised. But achieving the goals set out in the budget, especially in a European context of decelerating economic growth, may prove more difficult - to the extent that some analysts are already beginning to use the word "impossible" again.

Success in attaining the budget's objectives largely depends on two central issues: the strength of economic growth and the government's ability to

Economic outlook (percentage growth)			
	Finance Ministry	1995	1996
GDP growth	2.3	2.7	3.2
Private consumption	1.7	2.0	1.9
Public consumption	2.5	2.0	1.5
Gross fixed capital investment	6.4	6.5	8.0
Exports	12.5	11.6	8.9
Imports	12.2	10.7	7.3
Current account (% of GDP)	n.a.	-2.0	-0.1
Public sector balance (% of GDP)	-5.2	-4.2	-4.3

increase fiscal revenue by clamping down on tax evasion and fraud. Faltering progress on either front could lead to a budgetary overrun, weakening the minority government's political position and threatening Portugal's ability to meet the EMU criteria.

Inflation has fallen to its lowest level from more than 30 years, reaching a year-on-year rate of 2.5 per cent in February. But Portugal currently fails to meet any of the other EMU targets for public debt.

The government also fears that failure to take part in EMU would leave Portugal isolated on the periphery of Europe, with little influence over EU policy.

"If we fail to meet the Maastricht targets, we will miss out on much more than a single currency," says Mr Daniel Bessa, the former economy minister. "It is also a question of status and power within Europe. If we delay joining, Portugal will be put aside from the process of European decision-making."

Mr Sousa Franco has targeted a reduction in the budget deficit to 4.2 per cent of GDP in 1996 from 5.2 per cent last year. This is consistent with Portugal's plans to meet the EMU targets, which require a deficit of 3 per cent of GDP at the end of 1997. But it will not be easy to achieve.

"We not only have to attain a deficit of 3 per cent of GDP, but also maintain that level in the future," says Mr Miguel Namorando Rosa, an economist with Banco Comercial Português. "It is not clear that such a figure could be sustained."

The deficit reduction is to be achieved despite an increase in social spending to 47.3 per cent of total expenditure this year from 46.8 per cent in 1995. A budget to spend Es40bn on education - 12 per cent more than in 1995 - is the biggest planned increase.

One of the most painful costs could be rising unemployment, particularly as Portuguese industry has to restructure to

improve competitiveness - a process that will involve a substantial level of company closures - and big public sector companies are reducing their workforces. However, growth is forecast to be sufficiently strong this year to keep the jobless rate stable at about the 1995 level of 7.2 per cent.

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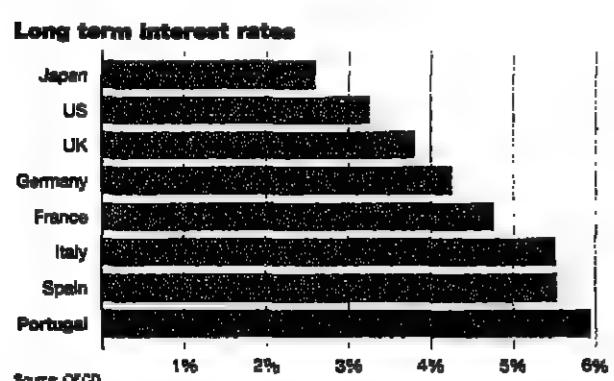


A shopping centre and cinema complex in the centre of Lisbon

Steve Pown

Overall living costs*	
Overall living costs	Overall living costs excluding housing
1 Copenhagen 120	Copenhagen 126
2 Paris 113	Helsinki 114
3 Berlin 111	Vienna 108
4 Vienna 111	Berlin 107
5 Helsinki 109	Stockholm 105
6 London 107	Paris 105
7 Amsterdam 103	Brussels 100
8 Stockholm 103	Amsterdam 98
9 Brussels 100	Dublin 94
10 Rome 94	Rome 92
11 Dublin 92	London 89
12 Madrid 88	Madrid 85
13 LISBON 80	Athens 82
14 Athens 80	LISBON 77

\*1995 figures: Brussels = 100  
Source: Eurostat



Source: OECD  
1% 2% 3% 4% 5% 6%

### Public sector companies are reducing their workforces

the budget deficit or interest rates on government bonds.

Some economists believe it would be more realistic for the country to contemplate joining EMU at a later stage. But Mr Guterres' government remains determined to secure Portugal a place among the first group of countries to adopt a single European currency.

The Socialists believe the fiscal restraint required to meet the criteria makes sound economic sense for Portugal and should be implemented regardless of EMU. Mr Ernesto Lopes, an independent economist and former finance minister, agrees. "Meeting the targets implies inevitable social and economic costs," in terms of a higher unemployment and company failures, he says.

"But if Portugal puts off acting now, we will have to pay a much higher cost in the future."

One of the most painful costs could be rising unemployment, particularly as Portuguese industry has to restructure to

achieve its confidence in stronger economic growth, which would increase tax revenue, as well as more efficient tax collection. It forecasts GDP growth of 2.5 per cent in 1996, up from unofficial estimates of below 2.5 per cent in 1995. It aims to stimulate growth by increasing state investment by 20 per cent to Es397bn in 1996,

which is mostly to be spent on transport infrastructure. But the deficit is largely to be reduced through increased tax revenue, which is forecast to grow by 7.9 per cent this year to Es336bn.

The government is placing its confidence largely in stronger economic growth, which would increase tax revenue, as well as more efficient tax collection. It forecasts GDP growth of 2.5 per cent in 1996, up from unofficial estimates of below 2.5 per cent in 1995. It aims to stimulate growth by increasing state investment by 20 per cent to Es397bn in 1996,

GDP growth this year. Another big project for which there are high expectations is Expo 98, a world fair to be held in Lisbon. The 1998 fair is also acting as a catalyst for a large-scale commercial real estate development. A university study estimates the project could create as many as 156,000 jobs, although not all would be permanent. That is more jobs than would be created by 30 AutoEuropa plants and is seen by many economists as an almost unachievable objective. The word they are using, in fact, is impossible.

Main macroeconomic indicators (year-on-year change)						
	1991	1992	1993	1994	1995*	1996**
GDP (1990 = Es9.585bn) (GDP: European Union)	2.3	1.7	-1.2	1.0	2.6	2.5
Private consumption	5.2	4.6	-0.3	0.0	1.2	1.8
Public consumption	3.2	1.5	-1.5	1.4	2.0	2.0
Investment	2.5	5.6	-7.8	4.2	8.0	7.0
Exports of goods and services	2.1	4.8	-0.8	1.6	12.0	6.0
Imports of goods and services	5.4	11.6	-4.8	8.9	11.0	9.0
Unemployment rate (%)	4.1	4.1	5.5	6.6	7.0	6.8
Inflation rate (%)	8.8	8.4	6.6	4.0	3.9	3.8
(EU) Inflation rate	5.0	4.3	3.3	3.1	3.1	3.0
Current account (in GDP %) (billions of escudos)	-0.8	-0.1	-0.2	-1.2	-2.0	-1.0
Escudo/DM	87.14	86.45	97.17	102.09	104.92	106.5
Escudo/US\$	144.48	134.80	160.80	181.24	180.85	180.6

\*estimate; \*\*forecast. Source: Bank of Portugal

■ Tax evasion: by Peter Wise

### Certain sins of omission

A clampdown by the finance minister has a target of lifting revenue by 7.9%

Nothing in this world can be said to be certain except death and taxes, according to Benjamin Franklin, the 18th century American diplomat and scientist. What remains far from clear in Portugal is how to make companies and individuals pay the taxes that they should.

Evasion is so rife that, according to their tax declarations, the average self-employed doctor or lawyer in Portugal earns less than a waitress or a construction worker. Almost 70 per cent of companies declare a loss and pay no taxes at all.

Tax consultants believe such initiatives need to be backed up by less visible but ultimately more effective measures. "The real answer to the problem lies in providing tax officers with better training in auditing techniques and raising the frequency and quality of field inspections," says Mr Carlos Loureiro, a Lisbon-based partner with Arthur Andersen.

Improving computer systems is also critical. Portugal still does not have cross-checking between corporate tax and VAT payments.

Independent tax specialists say these are optimistic targets.

Taxing companies and individuals on their imputed earnings is the most aggressive measure planned. Companies suspected of under-declaring will be obliged to pay taxes on the average earnings for businesses of a similar size in the same sector. Self-employed architects or accountants who declare an income lower than the minimum national wage, which is less than \$250 a month, could be taxed at a higher rate of their peers.

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Yet Portugal does have some highly refined tax planning facilities, such as the International Business Centre in Madeira, that operates offshore financial and service centres as well as an industrial free-trade zone and an international shipping register. But specialists agree there is ample room for improvement in national tax collecting.

Because of the high level of evasion by the self-employed, wage earners, whose tax payments are usually deducted at source, carry a heavy burden, accounting for most of the Es397bn that the state expects to raise in personal income tax this year. Total corporate tax revenue is forecast at just under half that and is largely paid by a handful of big companies.

The government now hopes to tighten the tax burden on wage earners who, it recognises, have suffered in the past because tax revenue has mainly been increased at the expense of those who are paying already. "To squeeze salaried employees any further would be to kill the goose that lays the golden egg," says Mr Loureiro. "It would only lead to more evasion."

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FIGURES AT THE END OF DECEMBER 1995

Es338bn
without increasing tax rates. He is also counting on the effect of stronger economic growth.
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Banking: by Peter Wise

# The bigger, the better

A take-over wave has been spurred by the need to compete in the global market

A Lisbon bank president sums up the motivation behind take-overs that have reshaped Portuguese banking over the past year in a single phrase: "All of Portugal's banks put together do not add up to a big Spanish bank."

The drive for greater dimension to compete in an increasingly global market led to three aggressive acquisitions by Portuguese banks last year, involving a total expenditure of Es422.7bn. At least one other purchase of a similar scale is imminent.

Banco Comercial Português, then the fifth largest bank, and Império, the biggest insurance company, made a successful Es36bn bid for 100 per cent of Banco Português do Atlântico, the second largest bank. They also paid Es1.6bn for control of União de Bancos Portugueses, a small retail bank that belonged to the BPA group, as part of the take-over.

In a separate acquisition, Mr António Champalimau, a 77-year-old industrialist and Portugal's richest individual, paid Es153bn for the 50 per cent of Banco Totta & Açores, the third largest bank, which was previously held by Banco Español de Crédito, the Spanish bank.

This rapid process of consolidation has extended the domination of Portugal's three biggest banks to about two-thirds of the country's total assets from 40 per cent previously. The top five banks now control almost 80 per cent of total assets compared with 55 per cent in 1994.

In less than a year, Portugal has reached a level of banking concentration similar to that in other smaller European countries such as Austria, Belgium, Denmark and the Netherlands in a wave of take-overs that is not yet over.

"Concentration that enables banks to achieve critical mass and reduce costs is an important issue for small countries like Portugal," says Mr Arthur Silva Santos, chairman of Banco Português de Investimento, which is seeking to

double its own assets by buying Banco Fomento e Exterior, Portugal's fifth largest bank.

BPA's original Es152bn bid for state-controlled BFE was rejected by the government in February. But the bank may make another offer when BFE is privatised by competitive bidding shortly in a sale expected to complete the first stage of consolidation among Portugal's bigger financial groups.

Expansion by Portuguese banks is aimed more at defending their own market from inroads by bigger foreign groups within a single European financial market than at attempting to compete in international markets, where they will always remain relatively minor players.

Portuguese banks rely more heavily on interest income - 77 per cent of total income in 1994 - than most of their European counterparts. Banks, which account for 41 per cent of the total capitalisation of the Lisbon stock market, have underperformed the market by 21 per cent over the past four years.

Due to weaker profits, banks as a whole have moved from trading at a 10 per cent premium to the market in 1993 to a current discount of about 30 per cent based on historic earnings. Banks' net profits grew by an average of about 15 per cent in 1995 compared with 1994, buoyed largely by increased income from bond trading.

Competitive tendencies

At the end of 1994, foreign banks accounted for 9 per cent of domestic credit and total assets, 8 per cent of branches, 6 per cent of total staff and 5 per cent of total deposits.

"Foreign banks have a small but growing share of the market," say Ms Karen Bradley and Mr Christopher Mallin, analysts with ING Baring Securities in London. "Their relatively low share of total deposits indicates the difficulties they have faced in capturing market share and also reflects the fact that the majority of their business is in the wholesale rather than the retail segment of the market."

As the impact of stronger competition eases, banks appear to be "heading out of the storm," according to a recent report by Ms Bradley and Mr Mallin. "The operating environment will remain difficult... but the pace of margin erosion will slow, and loan demand and asset quality are expected to improve over the next two years as the economy recovers," they say.

Recent takeovers have left banks that are not among the top three trailing considerably behind in terms of asset size.

Banco Espírito Santo, for example, is now the fourth largest group but has a market share that is only half that of the second largest group, BCP.

However, BES has no plans to grow through acquisitions and believes that a niche strategy based on developing its existing customer base is the best way forward.

"Our strategy is to approach the clients we already have as depositors with new products. It is not necessary for us to buy a new bank or buy new branches from another bank or launch a massive marketing campaign," says Mr Manuel Vilas-Boas, a director of Banco Espírito Santo Financial Holding.

The clients are already there. It's just a question of adjusting our strategy to achieve a greater emphasis on retail products. This is why we feel that organic growth is the best way for the group to expand at this stage. We do not need another bank or another company to gain access to more clients."

The banks before and after consolidation	
Percentage share of total assets	
Current	Before end-1994
CGD	24
BCP/BPA	30
BPSM/BTA	17
BES	10
BFE	6
BPI	4
Mello	4
Others	15
	24
BPA	15
BTA	12
BES	9
BFE	7
BPSM	6
BPI	5
Others	14

Source: Portuguese Banks Association/BCE Survey

Mr Carlos Tavares, president of Banco Nacional Ultramarino, points out that even if all Portuguese banks were to merge into one, such a group would remain less than half the size of Deutschebank or Crédit Lyonnais.

"A desire to compete in international markets is not a convincing reason for the increasing dimension of Portuguese banks," he says in a recent report. "A more cogent argument is the need to expand their power in the domestic market to bar entry to foreign competitors as legal barriers come down."

The sector, now dominated by privately-owned banks intrinsically more inclined to compete, has also been freed of many regulatory restrictions, providing banks with the freedom to exercise more aggressive instincts.

New foreign banks began cautiously moving onto the scene from 1985, but they have been arriving at a faster rate in recent years. They have tried to make up for what they lack in branch networks and franchises with competitive products and forceful marketing, further inflaming

A combination of several factors has fuelled competition. Nationalisation after the 1974 revolution placed almost 80 per cent of the financial sector under state control. A privatisation programme, begun in 1989, has since reduced state ownership to 38 per cent and it will fall further as the few remaining sell-offs planned by the government are completed by year.

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"This has undermined business results because Portu-

## COMPANY PROFILE

Banco Comercial Português

# Behind the bland exterior

Ten years ago, it was getting ready to open its first two branches. The name the bank's founders had chosen was as bland and unadventurous as it could be.

But Banco Comercial Português has proved to be anything but bland and unadventurous. By reputation it has become the most ambitious and best-managed of Portugal's banks.

In its first decade it is already Portugal's largest private sector banking group. By stock market value it is the country's second-listed concern after the partly-privatised telephone company Portugal Telecom. An issue of American depositary receipts in 1992 made it the first Portuguese group traded outside the country.

BCP's potential as a national bank became clear in the late 1980s, says Mr Jardim Gonçalves. That was when it launched a separate branch network, under the name NovaRede, aimed at middle-income customers and based on low operating costs. But in the early 1990s, he says, it realised that organic growth alone would not be enough to enable it to compete with the bigger groups. Privatisation of the state banks had already begun; it needed to buy.

In early 1994 it made its first bid, for Banco Pinto e Sotto Mayor, then ranked number six. But the government rejected BCP's offer as too low. BPSM came instead to be the centre of the financial empire rebuilt by Mr António Champalimau, who had controlled it during the dictatorship preceding Portugal's 1974 revolution.

BCP then fixed its sights on Banco Português do Atlântico, the large Oporto-based bank where Mr Jardim Gonçalves had spent eight years as chairman. The government began privatising BPA in 1990, in a plan to reduce the state's holding by stages. After the second stage was announced in 1992, a group of core shareholders joined forces to keep control about one sixth of the market.

It leapt to the top ranking a year ago when it succeeded, as its second attempt and against strong opposition, in taking over what was then Portugal's number two bank, Banco Português do Atlântico. In one move, it more than doubled its share of the Portuguese banking market from 9 per cent to about 19-20 per cent.

By that time it already ranked number five in the sector. It began from scratch in 1985, one of a few new banks set up to take advantage of liberalisation and Portugal's entry into the European Community. With

just over 200 initial shareholders, it was free of the legacy of bad debts, heavy structures and inefficiencies of the traditional big Portuguese banks, all of which were nationalised in the aftermath of the 1974 revolution and were still under state ownership.

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groups' operating and computer systems. The expanded branch network is used for "cross-selling" of products such as insurance and investment funds.

"In management terms, it has not been difficult," Mr Jardim Gonçalves maintains, even though BPA's tradition as a universal bank contrasts with the market segmentation approach followed by BCP. "If anyone can really digest BPA, it is probably them," says one Lisbon banker.

BCP's reputation among Portuguese banks remains high. It is one of the few European banks to have 100 per cent provision cover for non-performing loans. Last year it increased its consolidated net earnings by 8 per cent to Es20.2bn.

But banking analysts believe the task of absorbing BPA has been harder than initially imagined. They question the "fit" between the cultures of the two groups, and argue that BCP paid a high price at a time of tough competition and shrinking margins. They note that BCP is now planning to raise extra funds to reinforce its capital ratios, with a rights issue of 27m shares expected in May or June. An issue of up to \$250m in preferential convertible bonds is planned. This follows a \$50m preference share issue last September.

Mr Jardim Gonçalves says BCP has increased its stake in BPA; it is committed to either placing or buying shares now held by Império, its partner in the takeover, if the insurance group decides to reduce its holding. But he insists that the capital increases are not aimed at carrying out a further acquisition.

The process of "strategic concentration", he says, is finished. The problem of relative size in the market - "our problem was that we had 9 per cent and there were others with 20 per cent" - is now resolved, he says. "It is not important for us to be number one."

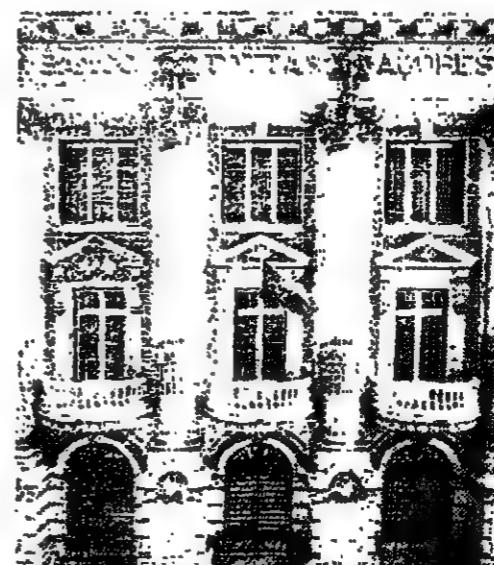
David White

cent. Mr Jardim Gonçalves brushes aside the question whether this restriction might conflict with EU norms. "They are the statutes of the bank," he insists.

Shareholding partners are also involved in joint ventures with BCP. These include joint ownership of the Banif private bank with BCE and a French tie-up with Banco Popular Espanhol. Mr Jardim Gonçalves has a firm policy of relying on partnerships for any foreign initiatives. Otherwise, he says, foreign operations are "a big risk".

BCP's policy for BPA, in which it now holds just over 50 per cent, has been to keep its separate retail network - "a good brand, extremely loyal staff, and extremely loyal customers," says the BCP chairman - but to undertake "a real merger at corporate centre level", as well as combining the two

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## 4 PORTUGUESE BANKING AND FINANCE

■ Privatisation: by Peter Wise

## In the name of democracy

The ambitious programme reflects the socialist government's philosophy

Portugal's new socialist government has embarked on an extensive two-year privatisation programme that is not only more ambitious than any planned by the previous centre-right administration but is also packaged in a different political philosophy.

Sales of state companies, conservatively estimated to raise Es330bn in 1996 alone, are intended to replace the idea of "popular capitalism" promoted by the previous government with the concept of democratic ownership, according to the centre-left Socialists.

Employees, small savers and Portuguese emigrants abroad are to be encouraged by discounts and tax incentives to invest in the planned privatisation of 22 companies in 1996 and 1997, a method first adopted by the Social Democrats, who were defeated in a general election last October.

Mr Antonio Guterres, the prime minister, told parliament that privatisation would promote greater social justice, equality of opportunity and economic integration. This, rather than the size of the public sector, was today the true difference between left and right, he said.

"To privatise is to democratise," said Mr Antonio Sousa Franco, the finance minister, rejecting the notion of "popular capitalism" as "ideologically compromised". But it has not become clear what concrete differences the new label implies.

Focused on banks and insurance, sales of companies nationalised after a left-wing revolution in 1975 have raised more than Es1,300bn over the past seven years, making Portugal the industrialised world's third largest privatising country after Britain and New Zealand, according to the Organisation for Economic Co-operation and Development.

The new government's pro-

gramme centres on industry and services, including steel, shipbuilding, oil, chemicals, mining, gas, paper pulp and

timber as well as airport management and motorway construction and operation. The biggest sales this year will be global offers of Portugal Telecom, the national power company, and Cimpor, a cement producer.

Privatisations planned for 1996-97 include:

- Telecommunications: a global offer of a second tranche of 22 per cent of Portugal Telecom is expected before mid-1996. The privatisation of 27 per cent in June 1995 raised

An international partner is expected to acquire an additional 20 per cent of PT early next year. This will require repealing a law that limits privi-

Timing will be crucial to the success of the Telecom sale

gate sector ownership of the group to 51 per cent. The government has indicated that 20 per cent of PT will be kept in state hands until the full liberalisation of Portugal's telecommunications sector, which has to be completed by 2003 under EU rules but is likely earlier.

- Energy: more than 20 per cent of EDP, the holding company for Portugal's power generation and distribution utilities, is to be privatised in another global offer at the end of 1996 or in early 1997. Further holdings will be offered subsequently but the state is to retain a holding of 51 per cent and management control.

The next phase in the privatisation of Petrogal, Portugal's biggest oil company, will not take place before 1997. Petrogal is 65 per cent controlled by the state with the other 45 per cent being held by a consortium of Portuguese investors. The privatisation of Gás de Portugal/Triângulo, two linked gas utilities, is to be undertaken once the project for introducing natural gas to Portugal has been completed, probably in 1997.

- Cement: 45 per cent of Cimpor is to be sold in 1996. This will reduce the state holding to 35 per cent following the privatisation of 20 per cent in 1994.

- Tobacco: 60-65 per cent of

Tahequeira (tobacco) is to be sold as a single block through a tender offer in 1996. The state will later sell its remaining holding on the stock market or under the terms of a sale option agreed with the buyer of the initial 50-65 per cent.

- Pulp and paper: plans to continue the privatisation of Portucel Industrial (pulp and paper) are based on a strategy to encourage Portuguese companies to be more competitive in the global paper sector. This means a second tranche will not be sold until 1997, after a restructuring of the group.

- Banking: the state's 80.5 per cent stake in Banco Fomento e Exterior, the fifth largest financial group, is to be privatised shortly by competitive bidding. The state's remaining 13.3 per cent of Banco Totta & Acores is to be sold on the stock market in 1996. Caixa Geral de Depósitos, Portugal's largest banking group, is to remain state-owned, at least for the medium term.

Secondary offerings in Cimpor and Portugal Telecom, two listed companies whose privatisation was begun by the previous government, will be the first global offers made by the new socialist administration.

- Proposes to offer 45 per cent of Cimpor, worth about Es40bn at current prices. This will reduce the state holding to 35 per cent following the sale of 30 per cent in Portugal's first international offer in 1994 when an early price fixing followed by a drop in the market damped investors' interest.

Analysts say cement provides investors with a secure entry to Portugal's high growth infrastructure sector, which is being fuelled by large inflows of European Union funds, without having to incur the risk of investing in the construction sector, where balance sheets are generally poor.

An upturn in construction involving both the public sector and new housebuilding is forecast to produce record levels of cement consumption, with demand growing by an estimated 2-2.5 per cent over the next three years on top of 5 per cent growth in 1995.

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prior disposal of financial assets and a clear indication of the government's plans for the remaining state holding are seen as the main conditions for a successful offer.

Timing will be crucial to the success of the Portugal Telecom offering. The company has enjoyed high growth after a global offer of 27 per cent last June. Shares in the group reached a record high earlier this month after it reported a 44 per cent lift in net consolidated profit to Es22.2bn in 1995 from Es25.1bn in 1994. The shares have gained more than 27 per cent since the first tranche of PT was sold at Es2,800 a share and the second tranche of 22 per cent is worth more than Es40bn at current prices.

Analysts consider Portugal Telecom could safely seek a slightly higher price than a Greek telecommunications offer expected in the first half of 1996. But delay into the second half would bring the operation into possible conflict with a Deutsche Telecom offering.

Mr Guterres makes no secret of wanting as many privatised companies as possible to remain under Portuguese control to provide the country with economic groups big enough to compete globally.

This means the government is likely to focus on sales made through direct negotiation and purchase tenders rather than public offerings, except for a few groups too big to be bought by Portuguese investors alone.

However, the Socialists, under pressure from the European Commission, are also proposing legislation that will ensure there is no limit on the acquisition of privatised companies by European Union investors. The previous government had set some case-by-case restrictions on foreign holdings of privatised stock that have led to complaints of illegality.

We particularly hope to encourage foreign investors to acquire holdings in companies where they can contribute valuable know-how and an international dimension," says Mr Daniel Bessa, the economy minister. He cites Petrogal, the oil company, as a possible example.

A new market should start soon in the northern city's former stock exchange

By a particularly unfortunate bit of timing, plans for a derivatives market in Portugal came to a head in the year of the Barings fiasco. Already postponed, the launch was scheduled last summer. Now, after further hesitations and hitches, futures trading is set to start in the next few weeks, bringing back to life what used to be the Oporto stock exchange.

The scheme promises to maintain for the northern Portuguese city at least a symbolic role as a second financial centre after Lisbon. Oporto, with a long and solid commercial tradition, has had a stock market for more than 100 years – mostly a modest presence, although it has had its active moments.

Closed after the 1874 revolution, reopened in the 1980s, it has looked for a new direction since the Lisbon and Oporto markets were privatised five years ago. In Portugal's equivalent of the Big Bang, after a couple of years looking at the experiences of international markets, it formally applied for authorisation to open trading in futures and options.

But the larger Lisbon exchange was thinking along the same lines and put in its application for a rival project. There was clearly not room for both.

After negotiation with the authorities, a compromise was reached, giving each centre its exclusive specialisation: the cash market in Lisbon and derivatives in Oporto. In mid-1994, the Oporto exchange in effect sold its cash business and ceased stock trading. Those equities which until then had been listed only in Oporto were transferred to Lisbon.

But it will have taken about two years to get the new market going in place of the old one. "There has been a delay," admits Mr Manuel Alves Monteiro, chief executive of the Oporto exchange. Technical problems have not been the only reason.

"Many people were not prepared to see a derivatives market in Oporto," he says. The hold-up is understood to reflect reservations about the project within the Bank of Portugal and the Securities Markets Commission (CMVM), the two bodies which will have supervisory responsibility. The Oporto exchange has addressed

one worry – the lack of training in this kind of market in Portugal – by running courses for banks and companies. In the last few weeks, work has been going on to complete the details of a legal framework.

The principal model for the scheme is Spain's Mefi, since 1990 one of the fastest growing among Europe's derivatives markets. Barcelona, where futures and options on Spanish bond and money-market contracts are traded, is assisting Oporto with the technology for fully automated trading and an integrated clearing system.

Mr Alves Monteiro is anxious to lose no more time in getting the market under way. The risk is that business will be lost to larger exchanges such as the UK's Liffe, taking advantage of greater liquidity and lower costs. "Yes, I'm worried," he confesses. "I have several times told the authorities that that's a danger. We deal with that danger every day."

This month the Oporto exchange obtained an important change in its regulations, enabling banks, and not only brokers and dealers, to become members. Mr Alves Monteiro considers their presence as both trading and clearing members to be vital to the market's prospects. "For the future on the long-term rate there can only be a market with banks," he says.

Before the launch, the exchange is moving to new, modern premises, abandoning the rented rooms where stock trading used to take place in a monumental 19th-century building belonging to the city's Commercial Association. It has changed its name from Bolsa de Valores do Porto to Bolsa de Derivados do Porto, to match its switch in activity. The main computers and a central team will be located in the city, although the automated system allows trading to be done anywhere in the country. Most of the training for the venture has been carried out in Lisbon, where the derivatives exchange also has offices.

How big a market is it likely to be? Mr Alves Monteiro says: "An optimistic prediction would be to achieve a size of 20 or 25 per cent of the Spanish derivatives market. On a pessimistic estimate, the proportion might be only 8 or 10 per cent. But he is reluctant to make forecasts. "It's a remark that might seem paradoxical from the chief executive of what is set to be Europe's newest futures market, he says:

"The predictions made by other exchanges have taught us not to think very much in the future."

## COMPANY PROFILE

## Barclays Bank

## English culture, but no queues

Barclays Bank, a small player that has successfully exploited a niche strategy amid the growing concentration of Portuguese banks, is to open a single branch in central Lisbon aimed at corporate customers.

By the time Barclays was celebrating the tenth anniversary of its Portuguese operations with a gala performance of works by Henry Purcell and Benjamin Britten at Lisbon's São Carlos opera house last November, it had established a network of 70 branches with about 800 employees.

Barclays Portugal, the only British bank in a traditionally Anglophile country, posted a net profit of Es1.24bn in 1995, up from Es1.02bn the previous year. The bank's total assets were Es305.4bn, down 2.6 per cent, while customers' deposits increased 17.9 per cent to Es192.8bn.

The bank sees 1996, when it began offering accounts to individuals, as the turning point of its move into Portugal. Until then, Barclays had concentrated on the multinational and Portuguese corporate sector. But, despite achieving strong results, it was dissatisfied with the prospects for growth.

In a second stage of development, the bank engaged in detailed studies before targeting the retail and private banking sectors. At the same time, it expanded into fund management, life insurance and car purchase finance. In 1993, Barclays was one of the first banks to introduce telephone banking into Portugal.

Barclays now aims to consolidate its two niche markets: corporate banking

services for Portugal's leading companies and what it calls premier banking, a product aimed at high net worth individuals involving a high level of personalised service and advice.

"We offer a friendly, queue-free service," says Mr João Freixa, assistant general manager of Barclays Portugal. "People at the upper end of the market are sensitive to service, remuneration and reputation. Our aim is to provide that by having a bank with a branch concept different from that of many other banks."

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Barclays now aims to consolidate its two niche markets: corporate banking

Portuguese banks were state-owned and to a certain extent politically motivated, says Mr Freixa. They were not allowed to lend above credit ceilings fixed by the Bank of Portugal. "Many banks had too many staff and were used to traditional banking relations, with controlled interest rates and even commissions that were largely regulated."

"The foreign exchange market and the debt market were virtually non-existent," he says. But the entry of new foreign banks into the market and their interest in these areas began to stimulate competition. "We were starting from scratch so we could create a bank which would prove more efficient than a more established bank with many more staff and older computer systems."

There was a lot of liquidity in the market as the Portuguese are traditionally big savers. But that is being reversed following the introduction of credit and direct debit cards.

Portugal has leapfrogged much outdated technology and adopted the most modern systems. In particular, Multibanco, an electronic payments system shared by all banks in Portugal and based on a national network of automatic teller machines, has proved a big success.

Barclays' main concern is to maintain the capacity to grow. "Private banking is exceeding our expectations," says Mr Freixa. "In Portugal, there is limited room for expansion. But we are still young, our customers are loyal and we continue to attract new ones."

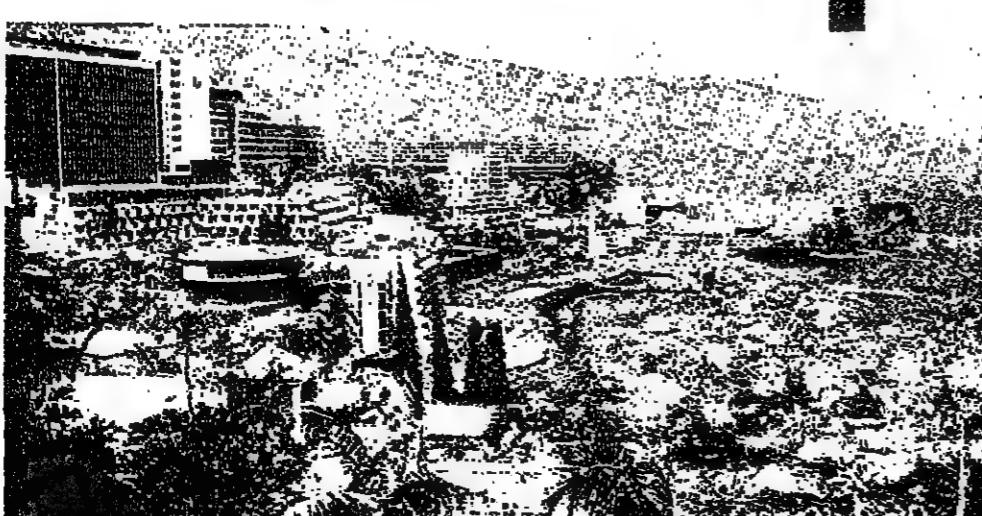
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الجامعة

# SLOVENIA

## Old row blocks new start

A dispute with Italy over property rights is impeding the country's European aims, write Kevin Done and Gavin Gray

**S**lovenia is planning to apply for full membership of the European Union later this year in an attempt to ensure that it is not relegated to the also-rans in the process of EU enlargement.

Earlier this month it set itself the target of achieving full EU membership by 2001 in the hope that it can avoid lasting damage from its protracted bilateral wrangle with Italy, whose use of its power of veto in Brussels has hitherto slowed Slovenia's progress towards closer formal EU integration.

Slovenia, the most developed of the six former Yugoslav republics, and the most prosperous of any of the states to emerge from former communist central and east Europe, thinks it should be at the front rather than the back of the queue to join the EU.

The country's economy has developed strongly during the past three years with growth in gross domestic product (GDP) of around 5 per cent a year in both 1994 and 1995.

Inflation has fallen to around 8 per cent and foreign exchange reserves have risen rapidly. It is also in the final stage of executing a landmark foreign debt deal with western banks which should finally allow it to extricate itself from the debt problems of former Yugoslavia and to build an independent presence in the world's capital markets.

The country and its 2m population have enjoyed several years of political stability since gaining independence in the summer of 1991, remaining at a distance from the disastrous wars waged in the Balkans by its former partners in the Yugoslav federation.

The government of prime minister Mr Janez Drnovsek has been hit recently by the defection of one of its main

coalition partners, the former-communist United List of Social Democrats (ZLSD). Mr Drnovsek is confident, however, that his centrist coalition government of Liberal Democrats and Christian Democrats will hold together until the general election due this autumn.

Despite this record of stability and progress the Alpine republic's search for closer formal links with the EU - the item at the top of its international agenda - has been thwarted to date by its long-running dispute with neighbouring Italy. Rome is still blocking the signing of Slovenia's association agreement, stopping it from crossing the first hurdle towards eventual EU membership.

The row has arisen from Rome's demands for Italian citizens, or their descendants, to be able to recover property owned in what was once Italy's and is now Slovenia's part of the Istrian peninsula. The Italian government has been insisting that the property should be returned to previous Italian owners, if it still under the control of the Slovenian state, and that otherwise, the property for sale, former Italian owners should be given preferential purchase rights.

Rome finally allowed association negotiations with Ljubljana to begin a year ago - after protracted initial delays. A deal was quickly reached in Brussels and was initialled last summer. For the past nine months, however, Slovenia has suffered the frustration of Italy vetoing the signing of the association agreement.

This is preventing it from joining the nine other countries from east Europe that have signed association agreements and which are already participating in Brussels'

so-called "pre-accession strategy" for countries from central and east Europe.

Initial hopes in Slovenia that the agreement could be signed during the six-month Italian EU presidency which began in January have faded fast. Rome has become ever more preoccupied with domestic politics and next month's general election.

The threat to Slovenia's EU ambitions is clear. "Momentum is building up," says a senior foreign diplomat in Ljubljana. "Without a signed association agreement, Slovenia cannot take part in the structured dialogue with the EU. It will simply not be part of the central and east European enlargement process."

Formal negotiations with some east European countries are expected to begin from 1998. In the wake of the EU's inter-governmental conference, there are nine candidates at present, but Slovenia is not yet one of them.

"Economically Slovenia is de facto the best placed of all for EU membership, but de jure it is in tenth place," says Mr Zoran Thaler, Slovenia's foreign minister.

The dispute with Italy has its origins in the last days of the second world war, when Yugoslav forces fought their way to the city of Trieste, pushing the Yugoslav-Italian frontier 50 kilometres west of its pre-war position.

A series of treaties culminating in the Treaty of Osimo in 1975 eventually allotted part of the territory to Italy, including Trieste, and part to Yugoslavia, including the coastal towns of Koper, Izola and Piran.

A large number of ethnic Italians fled the Yugoslav-administered zone for new lives in Italy. In 1988 the two countries signed a further agreement in Rome which committed Yugoslavia to paying Italy \$110m in instalments as compensation to Italians who had lost their houses.

Ljubljana considers that

Italy is now seeking to re-open these treaties by taking advantage of Slovenia's independence to demand that compensation also be given through the return of the original property. It is a demand that Slovenia has rejected on the basis that its legislation bars foreigners from owning property.

"Italy has raised issues from the past and used them to try to obtain bilateral concessions," says Mr Drnovsek.

Slovenia accepts that if it is to become a member of the EU it will have to amend its laws to let EU citizens buy property, including land.

In a nod to Rome the parliament declared this month that it was willing to "accelerate" the adoption of legislation on foreigners' property rights "in accordance with the European standards". In practice, however, Ljubljana still resists demands that it should already go down this road in its association agreement, claiming that it is a demand that has not been made of other EU candidates.

The dispute with Italy has exposed considerable contradictions in Slovenians' attitudes towards Europe. From its outset in the late 1980s the Slovenian independence movement was strongly pro-European, albeit in an ill-defined way. Slovenians associated Yugoslavia with the Balkans and corruption.

Independence represented a chance to be in Europe, a way they believed was fair and ordered. For Slovenians, Italy's handling of this dispute is strongly reminiscent of how Belgrade used to manage Yugoslavia.

Recent opinion polls still give strong support of about 70 per cent for the idea of Slovenia joining the EU. But when asked if they would still support membership at the price of permitting foreigners to be able to buy land, an equally overwhelming majority of Slovenians were opposed to the idea.

Slovenia's leaders have become bitter about the way Italy has behaved and about the failure of other EU members to overcome Italy's veto.

"In Slovenia we realised with considerable surprise that the EU is in fact far from some ideal democratic association such as we imagined in the past. We realised that within it there is a continuous bargaining of interests, often entirely without principle," says Mr Drnovsek.

The delay over the association agreement has tended to obscure Slovenia's wider achievements in bringing its economy more into line with the EU and in the process overcoming the loss of its main markets both in east Europe and in former Yugoslavia.

The Czech Republic is often lionised as the top-performing central European state, but Slovenia believes that it deserves this mantle. Its GDP per capita in 1994 was \$7,000, according to the Vienna Institute for Comparative Economics, compared with \$4,000 for Hungary, then the second richest east European country.

The port of Koper is becoming increasingly popular as a supply hub for the rest of central and eastern Europe and is already the largest sea port for Austria, Slovenia's land-locked northern neighbour. To enhance further this regional role the country is spending heavily on the development of its infrastructure, in particular

on the east-west and north-south motorway axes.

The east-west route will link the country's main economic centres of Ljubljana, Celje and Maribor, and the Slovenian Christian Democrats, together now control 45 seats, exactly half the seats in the national assembly.

Strains over economic policy and the need for tighter budget restraint and for urgent reform of the country's under-funded pension system, led to the departure of the left-wing United List, a successor to the communist party.

Mr Drnovsek is confident that the votes of a small number of independent MPs will sustain the government in office for the remainder of its term. But it is far from clear what alliance will emerge after the election. In particular the role of the Christian Democrats, the smaller coalition partner, remains ambiguous.

Its leader, Mr Lojze Peterle, Slovenia's first prime minister and foreign minister until his departure in 1994, has been openly plotting with two opposition parties, the Slovenian People's Party and the Social Democrats, about a possible new coalition.



■ The economy by Kevin Done

## GDP may rise 4.5% in 1996

The strength of the tolar and increasing costs could undermine the expansion

The Slovenian economy has grown strongly in the past two years, and further expansion is forecast for 1996 and 1997 despite warning signs that the country's competitiveness is being undermined by rising costs and the strength of the currency, the tolar.

Gross domestic product (GDP) grew by 8.5 per cent in 1994 and by an estimated 4.8 per cent last year. The government is currently forecasting growth of 4.5 per cent for this year, despite a worrying slowdown in industrial production, which grew by 2 per cent last year compared with 8.5 per cent in 1994.

Inflation has been brought down to one of the lowest levels in the region, the currency is stable, and foreign exchange reserves have risen sharply.

The year-on-year inflation rate had fallen to 4.4 per cent in December from 22.9 per cent in December 1993, and a further fall to around 7 per cent is forecast by the end of 1996.

According to a recent report by Union Bank of Switzerland on emerging markets the Slovenian economy's growth prospects "remain excellent".

Unemployment should continue its downward trend to 13 per cent in 1996 after dropping from 15.5 per cent in 1993, and the inflation rate should remain one of "the best in the region", and the government budget deficit should remain "minimal" at around 0.1 per cent of GDP for the next two years.

Slovenia has one of the best economic records of any of the

former Yugoslavia and other east European countries and to redirect trade towards the markets of the European Union.

In 1995 Slovenia surpassed its level of exports of 1991, finally making up for the loss of the Yugoslav market. According to preliminary figures trade with OECD countries accounted for 75 per cent of exports and 77 per cent of imports last year. The EU alone accounted for about 68 per cent of total trade.

Exports are estimated to have grown by 26 per cent last year (in nominal dollar terms) to \$8.6bn, but imports rose even faster by 32 per cent to \$9.2bn due in part to the strengthening of the tolar and growing imports of western machinery by Slovenian enterprises as the restructuring of industry gathers pace.

The trade deficit more than tripled to around \$600m, but Slovenia continued to run a current account surplus last year of around \$200m thanks in particular to strong income from tourism.

Investment in industry has been delayed in many cases by the uncertainties of the draw-out privatisation process, but the log-jam has now been broken, as the sell-off programme reaches its final stages.

"We are expecting much more enthusiasm from the corporate sector to invest, especially from the second half of

this year and in 1997. More capacities will be needed," says Mr Golko Koprivnik, deputy chief executive of SKB Banca, Slovenia's leading publicly-quoted bank.

Mr Mitja Gaspari, Slovenia's finance minister, admits that the real appreciation of the tolar in 1994 and in the first half of 1995 did damage the competitiveness of some sectors.

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Investments rose by 18 per cent in real terms last year, says Mr Gaspari, with their share of GDP rising to 23 per cent last year from 18 per cent in 1993. "Investment is gaining pace, and we can count on this for the future with the need for new technology and new capacities. This is important for an economy as exposed to foreign trade as Slovenia's."

transit countries in central and east Europe, but it also began from a position of relative strength.

The country was the most developed of the six former Yugoslav Republics. With only 8 per cent of the population of former Yugoslavia, Slovenia accounted for 16 per cent of Yugoslav GDP and 30 per cent of its hard currency exports.

The achievement of the past five years has been to overcome the loss of its markets in

the rest of industry, in particular labour intensive sectors such as textiles and shoe making.

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Source: SRSB

## 2 SLOVENIA

■ Debt by Kevin Done

## Legal challenge mars new agreement

A new deal on old debt has pleased creditors and angered Serbia and Montenegro

After more than four years of protracted negotiations with its creditors Slovenia is finally on the verge of severing its links with the foreign debts amassed by former Yugoslavia.

Last month the Slovenian parliament approved a landmark deal between the government and the so-called London Club of 400 commercial banks over the share of former Yugoslavia's foreign debt to be taken on by Slovenia.

The backing from parliament was supposed to be the final piece in the jigsaw needed to complete the country's negotiations with its commercial bank creditors, but recent actions by rump Yugoslavia - Serbia and Montenegro - have threatened the deal at the last moment.

Just as Slovenia issued its final binding-offer notice to western banks in mid-March, US lawyers acting for the National Bank of Yugoslavia and three Serbian banks issued a letter warning creditors against accepting Slovenian bonds. The letter threatened them with unspecified legal action if they proceeded.

After a few nervous days and intense consultations with their lawyers both Slovenia and the western banks have chosen to dismiss the threat.

The ball is now back in Belgrade's court. It appears that the National Bank of Yugoslavia will have to win a court injunction if it is still intent on disrupting the deal.

Slovenia and the western banks have chosen to stick to the original timetable, which has set April 11 as the deadline for creditors to record their loans and June 11 as the final exchange date.

The London Club deal completes the process begun by Slovenia's earlier debt agreements with the International Monetary Fund (IMF) and the World Bank in its first years of independence, and later with its 16 country creditors in the so-called Paris Club.

The resolution of the foreign debt part of Slovenia's unwelcome financial inheritance from former Yugoslavia will open the way for the nation to gain full access to the international capital markets.

It is now making formal presentations to the international credit rating agencies and is confident that by the early summer it will gain the ratings that will allow it to make a maiden issue in the eurobond market later this year.

Slovenia is the first of the states of former Yugoslavia to finalise an agreement with its foreign creditors. The deal could set a precedent for the commercial banks' separate negotiations with Croatia and Macedonia and ultimately with Bosnia and rump Yugoslavia.

The country has come a long way in the past five years since independence was declared in mid-1991.

One of the country's early strategic objectives was to become an independent member of the international economic and financial community and to decouple Slovenia's country risk from the country risk of what used to be Yugoslavia.

and the National Bank of Yugoslavia "jointly and severally" liable for the entire debt. Slovenia felt particularly vulnerable as the strongest part of the former Yugoslavia.

About \$12.2bn of Yugoslav debt outstanding at the end of 1991 was in the category of so-called "allocated" debt, meaning that it could be apportioned to the different Yugoslav republics on

an equal basis and came up with a formula for dividing former Yugoslavia's IMF debt, under which Slovenia took 16.39 per cent of the total.

The same method was then used to split up the unallocated debt to the 16 Paris Club creditors, which totalled around \$15.3bn. Of this Slovenia took on \$252m. Bilateral deals, agreed in principle in 1993, have finally been concluded in recent weeks with Germany, the US and France. Agreements with most other Paris Club creditors should be implemented by the end of 1996.

The hardest nut to crack has been the London Club debt, where the joint and several liability clause meant there were no legal grounds for distinguishing between "allocated" debt or for "unallocated" debt or for using the IMF formula.

Initially the banks demanded that Slovenia take responsibility for 28 per cent of former Yugoslavia's commercial bank debt - it totalled \$4.2bn at the end of 1991. Slovenia offered to accept only 14 per cent.

After two years of tense negotiations, agreement in principle was reached last summer with Slovenia offering to take on 18 per cent of the debt. The deal was finally accepted by the necessary number of banks holding at least two-thirds of the outstanding debt claims in January this year, with the Slovenian parliament adding its backing late last month.

Slovenia's agreement to take a share of the debt, which was worth \$5.578bn at mid-January exchange rates, is aimed at releasing it from the onerous "joint and several liability" clause, allowing it to sever its final links with the debts of former Yugoslavia.

By mid-June Slovenia will issue \$822m of government bonds in exchange for its share of the debt, with the same conditions as those contained in the last rescheduling arrangement, the so-called New Financing Agreement (NFA) of 1993, the last debt restructuring deal made by Belgrade before the break-up of Yugoslavia in 1991.

The bonds will mature in 2006 and will carry an interest rate of around 0.8 per cent over the London interbank offered rate (Libor). They will be denominated in D-Marks and US dollars.

NFA creditors from rump Yugoslavia - Serbia and Montenegro - with which Slovenia is still in dispute over its claim for a share of the assets of former Yugoslavia, are excluded from the deal with the commercial banks.

During the past four years the country's international financial standing has been transformed. When it launched its first three-year syndicated loan at the end of 1993, the price was 230 basis points over Libor. For the most recent syndicated loan the price had fallen to below 50 basis points over Libor.

■ Banking: by Gavin Gray and Kevin Done

## Managers try to fight change

Rationalisation is needed in this overbanked market

The Slovenian government is preparing to privatise the country's two largest state banks in the final stage of the bank rehabilitation programme launched in 1993.

The scheme rescued Ljubljanska Banka, the country's largest bank, and Kreditna Banka Maribor, which is based in east Slovenia.

The two banks had run into severe liquidity problems after independence in 1991, when the economic downturn created a heavy burden of bad debts. Both suffered further damage when the Yugoslav central bank refused to return their foreign currency deposits.

A third regional bank, Komercalna Banka Nova Gorica, was included in the scheme, but it was merged last year with Kreditna Banka to form a new institution, Nova KBM.

Under the rehabilitation scheme, the government assumed responsibility for most of the banks' bad loans and recapitalised them with 30-year government bonds. The Bank Rehabilitation Agency, an arm of the government, became the banks' owner and was given the task of restructuring them. At the same time, another 11 banks that used to form Ljubljanska Banka's

regional network were spun off and transformed into independent institutions.

Three years later the two banks have been fully restructured and Nova Ljubljanska Banka (the bank was renamed in 1994) has returned to profit.

Problems have emerged at Nova KBM, however, because the two management teams had problems working together, and Komercalna Banka has called for the scheme to be annulled.

The issue of privatising the banks is expected to be controversial. The whole issue may well be postponed until after the general election expected later this year.

The Bank of Slovenia, the central bank, is recommending that at least one of them be sold to a foreign investor. It would also like fresh capital to be injected into both banks.

The managers of Nova Ljubljanska Banka are firmly opposed to a foreign takeover and are lobbying for privatisation through a domestic share sale in exchange for privatisation vouchers - a proposal that would neither inject new capital nor even raise funds for the state.

The break-up of the Ljubljanska Banka network and the arrival of new entrants has left Slovenia with more than 30 banks - clearly far too many for a country of two million people. The government has lifted the minimum capital

requirement for a full banking licence to DM60m in an attempt to encourage consolidation, but few mergers have resulted.

In one of the few deals to be concluded, Nova Ljubljanska Banka last year bought Posavska Banka, a former subsidiary in the southern town of Krško. It is also trying to buy four more old subsidiaries in the towns of Domžale, Velenje, Trbovje and Mirna Sobota.

Most of Slovenia's smaller banks are jealously guarding their independence.

This has been a source of frustration for the management of SKB Banka Slovenia's largest private bank, which is

25 per cent owned by western investors including the European Bank for Reconstruction and Development (EBRD), which owns 15 per cent of it.

Last year it staged a hostile bid for Kranj-based Gorenjska Banka, another former Ljubljanska outlet. The bid was rejected by Gorenjska's management and shareholders forcing SKB Banka to expand by the more expensive route of setting up its own branches.

"We are over-banked, and at some time in the future there must be a consolidation of the sector," says Mr Gojko Kopravec, deputy chief executive of SKB Banka. "The targets for takeover will be those banks

with less than 5 per cent market share nationally. We have a substantial cash pile and we are going to play a big role in takeover activity."

For foreign banks the high level of minimum capital has hitherto been a big disincentive. Two Austrian institutions, Creditanstalt and Bank Austria, have subsidiaries in Slovenia while a French bank, Société Générale, opened a bank in 1993 with a restricted licence.

New banking legislation being prepared by the ministry of finance will allow foreign banks to open branches rather than subsidiaries in Slovenia, removing the pre-condition that new outlets be separately capitalised.

For years Slovenians have saved in foreign currency and

■ The stock market: by Gavin Gray

## Exchange could treble in size

The bourse has grown slowly since its establishment in 1989. This is set to change

Shares in the first wave of privatised companies are set to start trading this year, trebling the size of the stock market and giving western institutional investors their first chance to buy equity in a wide range of industrial companies.

At the end of last year only 12 companies were listed on the exchange with another six being traded on the over-the-counter market. These were new start-up companies, mostly in the service sector, and of little interest to investors wanting to buy into the well-established manufacturing companies that are fueling economic growth.

"This was the first stock exchange to open in east Europe - the Berlin Wall was still standing when we were founded in 1989 - but it was also the last exchange to begin trading privatised stock," says Mr Drasko Veselinovic, president of the Ljubljana stock exchange.

More than 70 companies have completed public share issues as part of their privatisation plans, but many of them have resisted listing their shares out of fear that this would expose them to hostile takeovers. Only one company

has come to market so far, Kolinska, a food processing concern, whose shares began trading in January.

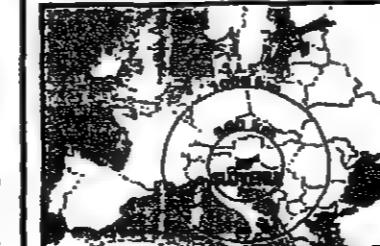
Several more companies are set to follow its lead later this year including Mercator, a supermarket chain, Droga, a food company, and Kovinoteka, a trading concern.

"The capitalisation of the equity market is about DM500m and I expect it to rise to DM1.5bn by the end of the year," says Mr Veselinovic.

The Ljubljana market has an electronic trading system and a new clearing and settlement centre that opens the way for dematerialised trading in securities. However, some of the legislation for a modern securities market is still lacking. A law on takeovers is due to be debated in parliament later this year.

Slovenia is also planning to revamp its legislation on foreign investment, which was originally drafted solely with industrial investors in mind. The new legislation will lay down a legal framework for portfolio investors and should remove lingering doubts about whether they can repatriate their investments. In the interim there have been a handful of offerings, the largest of which was an international placement of shares in SKB Banka, a private bank and the largest listed company. These are traded in the form of depositary receipts issued by Merrill Lynch.

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The chamber of Economy of Slovenia is very active in the field of international business. There are a number of activities sponsored by the Chamber including business missions, visits, promotion brochures, fair participation and consulting.

Performing the function of national business information center the Chamber is provider of comprehensive data about Slovenian companies, exports and imports, demands and supplies, foreign trade legislation, domestic business and economic outlook.

Its organisational structure encompasses both local coverage of the country by regional chambers and business activity by professional associations thus enabling very targeted contacts within the business community.

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## 4 SLOVENIA

■ Tourism: by Gavin Gray

## Gambling yields jackpot

Low-cost casinos have proved more of a draw than traditional attractions

In Nova Gorica, a town in western Slovenia, the car parks start filling up on Friday afternoons as hundreds of Italians stream over the border for an evening with a difference.

They are certainly not attracted to the town by its architecture. Lying just over the border from the Italian town of Gorizia, Nova Gorica was built from scratch after the second world war. Viewed from the air its network of grey tower blocks spell out the name Tito, reflecting the town's past as a bastion of socialism.

Since the mid 1980s, however, the town has been thriving on a distinctly unsocialist industry: gambling.

"Italians drive here 130km from Venice just for an evening out, even though they have a casino in their home town."

Traditional resorts perform less well than gambling centres. Steve Davies

says Mr Srdan Tovornik, director of HIT Nova Gorica, which operates two of the town's casinos.

While Italy's handful of casinos cater mainly for the old and very rich, HIT has succeeded in adapting some of the features of Las Vegas casinos to attract younger, middle-class Italians.

HIT's Hotel Perla, for

instance, has more than 500 slot machines including 90 in the Captain Hook Club, the hotel's disco. Prices are lower as well: it costs £5,000 (\$8,15) to enter the casino in Nova Gorica, compared to £20,000 (\$32,50) in Venice.

Although HIT's facilities stay open 24 hours a day, few visitors stay the night and the car parks are empty by Saturday morning.

This type of tourism is becoming more and more important to the Slovenian economy. In 1986 the country earned \$1.3bn from tourism, a 25 per cent rise on 1984. Casinos and other forms of gambling accounted for 11 per cent of the country's earnings last year, more than double its income from its many hotels and guest houses.

At the same time, the number of overnight stays in Slovenian hotels rose by just 0.3 per cent to 5.9m and most of this increase was accounted for by local guests.

But while the casino business has been thriving, some of Slovenia's traditional tourist attractions are still struggling to recover from the after-effects of the break-up of Yugoslavia.

One of the hardest hit has been the Postojna cave. It is 27km long – the second longest cave in the world – and one of more than 8,000 caves in the Karst area, a limestone region of western Slovenia.

It became a big tourist attraction during the late nineteenth century when a railway line was opened from Vienna to Trieste. Postojna became Slovenia's prime tourist spot in the 1970s and 1980s as more and more foreign tourists visited Yugoslavia on package holidays. Many of them would travel to Postojna on day trips from beach resorts in Istria, while others would stop on the drive down to Croatia's Dalmatian coast. In 1990, the year before the break-up of Yugoslavia, there were nearly 900,000 visitors.

Tourism in Croatia disappeared overnight in 1991 when war broke out. It is showing few signs of a quick recovery and the number of visitors to the cave reflects this. Although the number of visitors rose from a low of 153,000 in 1991 to 260,000 in 1994, it fell again last year when the Croatian army's assault on the Serb-held Krajina region scared tourists away.

This year management expects the number to rise again to 260,000, although Ms Ksenija Dvoršak, the cave's marketing manager, has no illusions about its prospects of regaining the position it enjoyed before the break-up of Yugoslavia. Meanwhile management is generating extra income by inviting foreign tourists on specialist trips of little-known parts of the cave; another venture is to stage concerts and gatherings in the cave.

North-west of Postojna lies the valley of the Soca, an emerald-green river that is a blossoming centre for activity holidays. It is becoming popular with rafting enthusiasts. Bovec, a small town near the river's source, is a centre for gliding and climbing.

With the Italian border only 10 minutes away by car and the Austrian border a 20 minute drive, Bovec could quickly develop into a modern tourist resort. But Mr Srdan Germovsek, president of the Bovec town council, cautions that development needs to be controlled to ensure that the area's natural attractions are protected.

While a large number of the town's visitors come from neighbouring Austria and Italy, Mr Germovsek believes that in future visitors will come from further afield. He hopes to combine forces with his counterparts just over the border in Italy and Austria to organise a joint marketing campaign for this area of the Alps.

■ Renault: by Kevin Done

## Revoz opens access to east

The French carmaker sees Slovenia as a springboard for eastward expansion

Renault of France, the only European vehicle maker assembling cars in Slovenia, is playing a growing role in the country's economy.

Revoz, its majority-owned subsidiary is the country's biggest industrial group measured by turnover and is one of its biggest exporters.

The French carmaker also dominates the local car market with a share in year of 25.7 per cent, more than double the shares commanded by its closest competitors, the Volkswagen and Fiat groups.

The level of car ownership in Slovenia – around 318 per 1,000 inhabitants – is already the highest in central and east Europe, an indication of the country's status as the most advanced of the transition economies. The level of car ownership is also ahead of some European Union member states such as Greece and Portugal. The average for the EU is 318 cars per 1,000 inhabitants.

The new car market grew strongly last year with a rise of 32 per cent to 61,300 from 46,400 in 1994, but the pace is likely to slow in coming years with annual growth of 2-3 per cent, says Mr Bernard Courset, Revoz's chief executive.

The Revoz facility at Nova Mesto is Renault's only car assembly outpost in central and east Europe – its European car plants are otherwise heavily concentrated in Belgium and south-west Europe – in France, Spain and Portugal – and it is Slovenia's only car plant.

The operation is still heavily dependent on exports to west Europe, chiefly to France and Italy, but the French carmaker believes that it can be used as a springboard into other markets to the east.

Renault has made a strategic decision to develop its presence in Slovenia," says Mr Courset. "It wasn't a question of moving capacities from west Europe but of developing new ones in order to be closer to potential markets in central Europe and the Balkans."

He believes that long-term benefits will accrue both from Slovenia joining the Central European Free Trade Agreement – it became a full member at the beginning of the year alongside the Czech Republic, Poland, Hungary and Slovakia – and from the re-opening of markets in former Yugoslavia in the wake of the Dayton agreement.

Renault's production in Slovenia has grown strongly in the past two years, as the Revoz operation has benefited from the recovery in new car sales in west Europe following the deep recession of 1993.

Output increased by 18 per cent to 57,405 last year from 73,900 in 1994 and the low point of 58,276 in 1993 with exports accounting for more than 80 per cent of production. Renault currently assembles the Clio and RS small cars in Slovenia.

The local content of Renault cars assembled in Slovenia is low, at around 36 per cent, but the Revoz plant is still important as the main customer for the local Slovenian automotive components sector.

Assembly of Renault cars began under licence in former Yugoslavia in 1969, but the French carmaker did not make its first equity investment in local production until 1989 with the creation of Revoz, in which initially it held a 20 per cent stake.

At the beginning of the 1990s the decision to commit a significant investment to Slovenia for the production of the Renault Clio small car and to integrate the Nova Mesto plant into Renault's European production network led the French carmaker to increase



Slovenian levels of quality compare well with those of French plants

In the meantime the investment of around FFr1bn – most importantly for a new paintshop – went ahead supported by a FFr300m loan from Renault, with the first Clio leaving the assembly line in Nova Mesto in May 1993.

Renault is adamant that the state should share the entrepreneurial risk at Revoz, not least because of legislation that "is not encouraging to foreign investors", says Mr Courset.

He cites two particularly irksome regulations. These make it necessary for:

- either the chief executive or a majority of the members of the management board of joint stock companies to be Slovenian, and;

- a worker's director to sit on the management board of any company with more than 1,000 employees.

Renault is pleased with the productivity of its operation in Slovenia and with the quality of local output. The latter compares favourably with its domestic plants in France, says Mr Courset.

Gross monthly wage costs of DM1,565 (\$1,061) per employee may be two-and-a-half times the level of the Czech Republic or Hungary, but they are partly compensated for by higher productivity and they are only a third of the level of France, says Mr Courset.

While production has risen strongly in the past two years the workforce has been reduced from 3,968 in 1991 to 2,905 in 1995, and the level of automation at the Revoz plant is still low.

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Retailing: by Peter Wise

## Corner shop feels the pinch

The country has far more grocers than the European average, but their future is uncertain

Turn almost any street corner in Portugal and you will find a corner shop. The local grocer will cut a slice of cheese to your liking, help you choose the best tomatoes from a wooden crate on the pavement and carefully parcel half a kilo of dried codfish in brown paper and string. While you chat with the other customers, he may pour you a glass of wine from a barrel behind the counter.

This might sound like paradise to consumers in more commercially developed countries who shop for homogenized, shrink-wrapped products along crowded supermarket aisles. But it is not, apparently, what most Portuguese shopkeepers want.

Sales by small grocers fell from 64 per cent of total retail food sales in 1989 to 34 per cent in 1994 as consumers turned away from the corner shop to big new supermarket and hypermarket chains. Portugal still has almost three times as many small grocers as the European average - 3.8 per 1,000 inhabitants compared with 1.4 for Europe as a whole - but their future is increasingly uncertain.

Almost 5,000 local grocers went out of business between 1989 and 1994 and five small shops are currently being forced to close every day, with the loss of 90 jobs, say commerce organisations.

"Many of the 500,000 people employed by Portugal's 200,000 small retailers face dramatic situation," according to Mr Vasco da Gama, president of the Portuguese Confederation of Commerce (CCP). "Their sales are falling and their earnings are often insufficient to cover their fixed costs. Many are not covered by social security."

Strong emotions generated by the conflict between traditional commerce and large-scale retailing have found expression in a heated national controversy over Sunday opening hours.

In January 1995, the then

centre-right government cut almost unrestricted Sunday opening hours to six hours for hypermarkets and other large stores in response to strong lobbying from small shopkeepers. But the measure has failed to satisfy either side in an increasingly emotive debate.

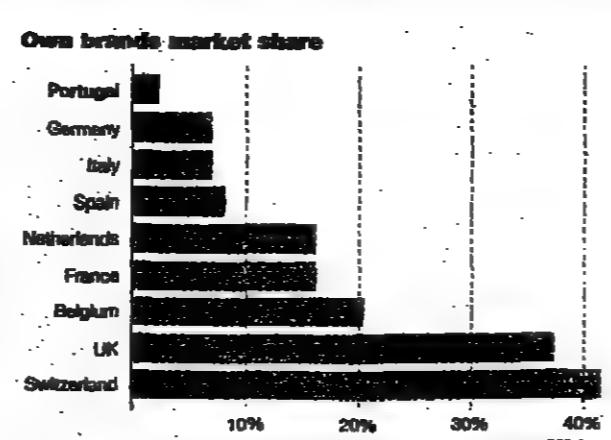
The socialist government that came to office after winning a general election last October promised to restrict Sunday opening further in return for the CCP's adherence to a national pact on wages and conditions.

But a decision this month by Mr Daniel Bessa, the economy minister, to reduce Sunday opening for big stores by only one more hour to five hours - against 10 hours for other outlets - is unlikely to appease small shopkeepers, particularly if the government subsequently permits the opening period to be in the afternoon. Mr da Gama has called such a proposal "catastrophic".

On the other side of the argument, the big stores - defined as having an area of more than 2,000 square metres in towns or 1,000 sq metres elsewhere - say cutting Sunday opening to five hours could threaten the jobs of between 3,750 and 5,000 of the 25,000 people they employ. Weekend shopping accounts for more than half of supermarket sales, say the big chains, although fewer people shop on Sunday than Saturday.

According to Mr da Gama, 10 per cent of the big stores' total sales, which have grown to about Es200bn a year from Es230bn in 1989, could be transferred to small retailers if hypermarkets were forced to close all day on Sunday.

Behind the controversy over Sunday opening lies a deeper argument over traditional values and changing lifestyles. A group of 80 Roman Catholic priests in Oporto has issued a manifesto opposing Sunday opening and denouncing the



Retail food trader annual sales						
Figures in billions of escudos						
	1989	1990	1991	1992	1993	1994
Hypermarkets	107	162	221	308	401	468
Supermarkets	124	147	183	215	250	292
Other outlets	404	461	479	475	458	399
Total	635	770	883	998	1,103	1,160

Source: Nielsen, GfK

big retail groups for seducing people into consuming more. But Portuguese shoppers clearly enjoy the wider variety, convenience and lower prices that large outlets offer, Mr Bessa, who believes restricting the big stores will be of little practical benefit to small shopkeepers, acknowledges that an afternoon at the hypermarket has become a new form of weekend leisure, particularly for less affluent families.

Most analysts agree that closing their bigger competitors on Sunday is not the real answer to small retailers' problems. "Most shoppers prefer lower prices and a large variety of goods. That gives large stores the advantage," says Ms Maria Amélia Valverde, an analyst with Gesfinc, a Lisbon

research house.

"This does not mean that some consumers will not remain faithful to the neighbourhood store," she says. "But small shops need to become more competitive and offer attractive premises in addition to the personal touch that distinguishes them from the standardisation prevailing in the big outlets."

Portugal is using European funds to help finance a Es45bn programme, known as Procom, that provides grants and low interest loans to encourage small retailers to invest in modernisation and training to increase the productivity and competitiveness of the sector.

But small shopkeepers, many of whom are elderly with no children willing to carry on the business, have been slow to apply for the support available. To become more competitive, small shops will have to specialise further or follow the trend for changing into convenience stores, discount shops or franchise outlets, say analysts.

Discount stores - small shops that offer a narrow range of goods at low prices - and convenience stores, which open for long hours, are more of a threat to local grocers than supermarkets and hypermarkets, according to Ms Valverde.

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They share the same locations, have lower prices and a modern appearance that appeals to young shoppers," she says. "At the same time, there are no legal restraints on their expansion of the kind imposed on the big chains."

Portugal currently has 44 hypermarkets with an area of 2,000 sq metres or more. That is the equivalent of one for every 217,000 inhabitants, more than double the number of potential customers per store in Spain and seven times higher than the ratio in France.

But the government considers the big chains, which include the Sonae group, Jerónimo Martins, Pão de Açúcar and Carrefour, have gained market share very fast. Tight restrictions amounting to a temporary freeze on granting licences for new stores are now expected.

This could help, rather than hinder, profits. Because there are fewer hypermarkets and labour costs are lower, Portuguese hypermarkets and supermarkets enjoy higher operating margins than in most other European countries - an average of 4 per cent in 1994 compared with 2.5 per cent in France, for example.

Restrictions on the opening of new stores will help prevent hypermarkets maintaining high margins and competition in Portuguese retailing is likely to focus more on smaller supermarkets and discount store chains. The Sonae group's Modelos Continente and Jerónimo Martins, the only two retailers quoted on the Lisbon stock market, are also expanding abroad to offset restrictions in the Portuguese market.

Jerónimo Martins, Portugal's second largest retail group, has adopted a vigorous expansion policy, branching into international sports and leisure gear with the purchase last year of Britain's Lillywhites and buying Poland's largest cash and carry chain.

In the Portuguese retail sector the group has consolidated its position with a healthy balance sheet and annual sales of more than Es280bn. Earlier this month it reported a 29.3 per cent increase in net consolidated profit to Es8.1bn in 1995 from Es2.2bn in 1994. Growth was driven by a 23.9 per cent jump in sales to Es281.7bn.

But the group does not sit on its laurels. Mr Alexandre Soares dos Santos, the chairman, says it is now looking abroad for growth because of weaker consumer demand and licensing difficulties for supermarkets at home.

"I think the period of growth in Portugal is at an end," he says. The challenge now facing the company is profitable growth. "We bought Lillywhites firstly because of the store's specialist knowledge, but more importantly because the company had an expansion programme which met our needs exactly," he says.

With the acquisition last December from Forte, the UK hotel group since taken over by Granada, Jerónimo Martins has made a first step into the growth area of sports and leisure wear, aware that competition in the food sector is becoming tougher.

"We chose Lillywhites after commissioning a US market study which indicated that neckties would almost cease to exist in 10 years' time," Mr Soares dos Santos says. "The trend to more casual clothes is very strong."

Lillywhites, whose sales rose slightly to just under £20m in 1995, has provided Jerónimo Martins with a springboard from which to expand its retailing business and strengthen its weak non-food sector.

### COMPANY PROFILE

Jerónimo Martins

## In gear for expansion

chain in Madeira.

According to a report by Gesfinc, a Lisbon equity research group, the Feira Nova chain has the best growth potential in Portuguese retailing in terms of gross and operating margins. Currently it is third, after the Modelos and Pingo Doce supermarket chains, with a 13 per cent gross margin.

Its operating margins are just over 7 per cent. However, its locations have yet to face the direct competition of other hypermarkets. Feira Nova also enjoys the lowest wages-to-sales ratio among Portuguese hypermarkets.

Feira Nova shows the best return on assets and shareholders' equity in Portuguese retailing. The chain has virtually no bank borrowings on its balance sheet while most of the other retailers have borrowed heavily.

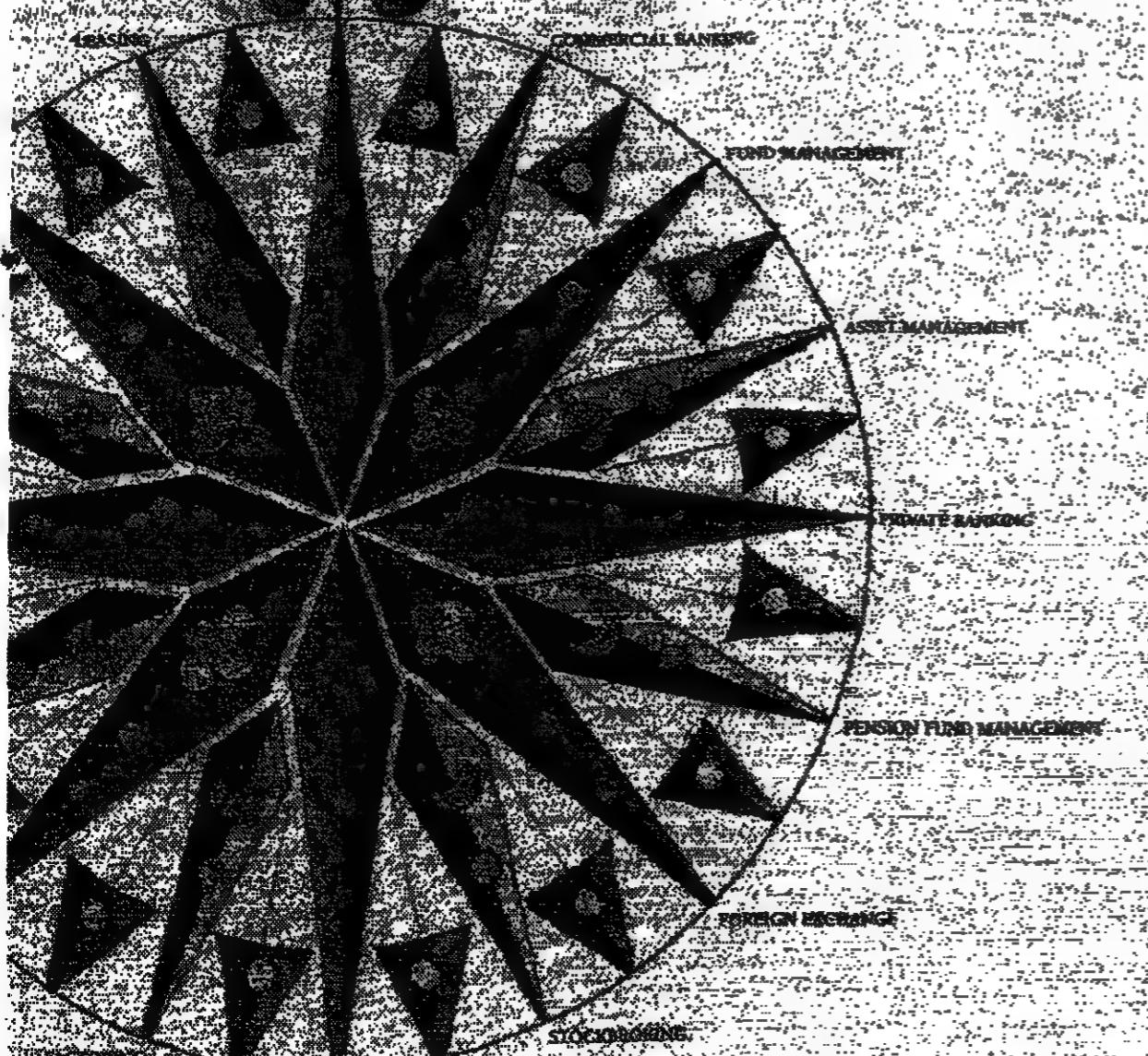
The forecast gearing - the percentage of a company's trading profit that goes to pay interest charges - for Jerónimo Martins in 1995 shows a drop of 14 per cent from 1994 to 73 per cent. This compares with Portugal's leading retailer, the Sonae group, which is forecast to have a 71 per cent gearing in 1996, a marked contrast to 1994's 46 per cent.

Last year the group invested Es40bn, of which Es27bn was in the domestic market. This year it is expected to spend a similar amount. Together with the Sonae group's rival Continente chain, Jerónimo Martins accounts for nearly 10 per cent of the Portuguese stock market's total capitalisation.

On the basis of projected expansion for the Pingo Doce and Feira Nova chains in Portugal, together with the development of Lillywhites and its cash and carry business in Poland, analysts forecast Jerónimo Martins' net earnings will grow by 20 per cent in 1995 and 1996.

Sarah Provan

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## 6 PORTUGUESE BANKING AND FINANCE

■ Project finance: by Peter Wise

## When the user won't pay

Consumer revolts have undermined a central concept of private sector financing

One of the first election pledges fulfilled by Mr António Guterres, the prime minister, after his socialist government took office last November was to abolish tolls on three recently-constructed ring roads around Lisbon and Oporto.

The measure improved his popularity ratings among commuters in the two cities but also led to a loud clamour to do away with tolls on similar roads serving Coimbra, Braga and other towns.

Mr Guterres said the three ring roads were failing to achieve their purpose of relieving traffic congestion because the tolls discouraged motorists from using them as an alternative to existing routes.

But by transferring the bill for the construction and maintenance of the roads from city drivers to the general taxpayer he was also undermining a concept central to private sector financing of infrastructure projects: the user pays.

In a similar move, the government has decided to raise the toll for crossing Lisbon's April 25 suspension bridge over the Tagus river by 13 per cent from April 1. But, through an arrangement that has not yet been made public, bridge users are later to be reimbursed with the equivalent of the increase.

Both these measures were failing and the abolition of the ring road tolls involve renegotiating operating contracts and compensating the companies involved from state funds in a trend that analysts fear will set back the development of the project finance in Portugal.

Private sector infrastructure projects were already suffering difficulties under the previous centre-right government, chiefly because of political problems in addressing the need to lift heavily-subsidised prices for public transport and other services to viable commercial levels.

The issue reached a head in 1994 when the April 25 bridge was blocked by protesters objecting to a 50 per cent toll increase. The issue was to help

bring tolls up to the level of those planned for the new Es180bn Vasco da Gama bridge, the longest in Europe, that is being constructed in Lisbon under a build, operate and transfer (BOT) contract by Lusoponte, a consortium led by Trafalgar House of the UK. The group has also taken over the operation and maintenance of the April 25 bridge as part of the agreement.

In 1994, the blockade forced the government to attenuate the project, where the cash flow from the operation of the

dept of private financing and operation."

In theory at least, the Portuguese economy is ideally suited for project finance. The country lacks many important infrastructures compared with more developed neighbours. But it also has to exercise tight budgetary restraint to meet the convergence criteria for Euro-pean monetary union.

Placing projects in the private sector, where the cash flow from the operation of the

adequately," says a Lisbon banker. "It has also failed to market the benefits of infrastructure operated by the private sector in a way that would help overcome difficulties in increasing tariffs."

Fear of politically unpopular fares appears to be one of the reasons why the previous government reversed a decision to grant a concession for a privately-financed Es100bn project to build and operate a railway link under the April 25

Project finance: the big jobs			
Project	Company	Sector	Investment in \$m
Pego - coal-fired power station	Tejo Energia	Energy	1,220
Tagus Flood Bridge (Lisbon)	Lusoponte	Infrastructure	1,000
Natural gas pipeline	Transgas	Energy	1,200-1,500
Tapada do Outeiro - natural gas power station	Turbogás	Energy	900
Oporto natural gas distribution	Portgás	Energy	200
Central region natural gas distribution	Lusitanagas	Energy	150
Setúbal natural gas distribution	Setgás	Energy	200

Source: the companies

Financial closing

the planned toll increases for the existing bridge, obliging it to allocate an additional Es180m of public funds to the new bridge, a partial withdrawal from the original aim of promoting it as a private sector financed project.

"The big expectations created for project finance in Por-

Placing projects in the private sector appears to make more sense than paying for them out of limited public funds

tugal have not yet been fulfilled," says a Lisbon banker involved in the private financing of infrastructure projects.

"The attitude of the state has been focused on relieving itself of the financial burden of big projects and transferring the risk to the private sector rather than sharing it," he says. "Projects have been undermined by an underlying lack of commitment to the con-

cerner is used to pay back the loans contracted to finance their construction, appears to make more sense than paying for them out of limited public funds."

However, the concept has not proved so easy to apply in practice. The consumer revolt over the bridge toll, as well as subsequent toll concessions and abolitions, strike at the "user pays" principle underlying project finance.

Perhaps this indicates that the principle works only if tariffs are acceptable to the consumer. The high level of state funding for public transport systems in Portugal makes the change from subsidised to commercially-viable fares painful and politically sensitive.

Lusoponte originally planned to charge an initial toll of Es500 for a two-way crossing of the new bridge. The current toll on the existing bridge, which opened in 1966, is Es150. It is now unclear how Lusoponte will lift the toll on the existing crossing to the same rate planned for the new bridge. Traffic is unlikely to be diverted to the new crossing if the toll on the existing bridge is lower.

"Government has been

undermined by an underlying lack of commitment to the con-

cerner. The service is now expected to be financed and run on traditional terms by the state.

Portugal has had more success with project finance in the energy sector, where consumer tariffs will remain largely controlled by the state and, at least for industrial consumers, were already high in relation to the rest of Europe.

In 1988, the state power utility, EDP, sold two 300MW coal-fired power plants at Pego, 130km north-east of Lisbon, to Tejo Energia, a group led by National Power of the UK, for Es150m. Two further 300MW units are expected to be added to the plant and Tejo Energia has an option on their purchase.

In February 1995, a consortium led by PowerGen of the UK began construction of Portugal's first natural gas-fired power plant at Tapada do Outeiro, near Oporto. The Es100bn EOT project is to be financed mainly by a syndicate of Portuguese and international banks, including the European Investment Bank. The introduction of natural gas into Portugal and its regional distribution are also to be partially financed by the private sector.

■ The stock market: by Peter Wise

## A buoyant year is forecast

Lower interest rates are expected to lead to a flow of funds from bonds into shares

about 200 basis points since the general election to 6.88 per cent for the latest five-year Treasury Bills (OTBs). Yields for all public debt securities are now lower than in Spain.

Ms Isabel Cabral, an analyst with Lisbon brokers Fincor, forecasts rates on 10-year OTBs will fall to 8.59 per cent this year from 10.5 per cent in 1995 against a background of decelerating economic growth in Europe. She sees three-month spot market interest rates dropping to about 7.25 per cent by the end of 1996, from 8.8 per cent last year, as the Bank of Portugal follows German interest rate cuts.

The Lisbon stock market's BVL-Geral index has gained more than 8 per cent since January and analysts project an increase of up to 15 per cent by the end of 1996. After two years of solid growth, the index fell 4.6 per cent in 1995 as trading volume on the secondary market dropped 5 per cent on 1994 to Es594.7m.

Shares suffered last year as fears that the general election in October would produce a hung parliament pushed up real interest rates. But the Socialists' convincing victory, followed in January by the election of President Jorge Sampaio, a fellow socialist, have since lowered Portugal's political risk premium.

Brokers base their optimism on an expected flow of funds from bonds into shares as a result of lower interest rates. "Shares account for only about 5 per cent of the portfolios of most Portuguese pension funds," says Ms Karen Bradley, an analyst with ING Beringa. "That level could rise to about 10 per cent this year as interest rates on bonds and government securities fall."

Yields on long-term government securities have fallen by

bridge. The service is now expected to be financed and run on traditional terms by the state.

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The trading floor of the Lisbon stock exchange

and others invest to buy privatised stock."

Ms Mari Vargas, an analyst with Dillon Read Securities, says a number of companies have rationalised operating costs as a result of the 1993 recession and are now better placed to benefit from an economic upturn. In the industrial sector, brokers point to Corticeiros Amorim, the world's leading cork producer, and Barbosa & Almeida, which controls 45 per cent of Portugal's glass packaging market, as niche companies that are relatively isolated from weaker demand.

According to Mr Emmanuel de Figueiredo of Carnegie Portugal, bank consolidation, after the big takeovers last year, will help profitability by easing the fall in interest margins as groups compete less aggressively during a period of internal reorganisation. Economic growth will lower bad debt provisioning requirements and increased bond revenue should improve earnings.



Lynne van der Meer

## PRIVATISATION PROFILE Electricidade de Portugal

## The jewel in the crown

A global offering of Electricidade de Portugal, the holding company for Portugal's national power production, transport and distribution utilities, will be the jewel in the crown of the new privatisation programme, bringing long-awaited new breadth and greater liquidity to the Lisbon stock market.

The government aims to

privatise 49 per cent of the

group, which it expects to be

valued at about Es1,400bn by

the end of 1998, with an

initial public offer of 10-20

per cent in November or

December of this year.

Lisbon, New York and London

are the priority markets for

the first offering. Frankfurt,

Paris and Madrid may also be

included in the operation.

A study is under way into a

precise timetable for the first

operation and government

officials acknowledge that to

organise an international

road show to promote the

offer among investors in

leading financial markets it

may be necessary to postpone the first phase to the beginning of 1997.

Under the previous government's plans, EDP had been expecting to privatise a holding into Companhia Portuguesa de Produção Elétrica, the power generating arm, followed by stakes in Portugal's four regional distribution companies, rather than part of the holding company.

Analysts say reformatting the sale on these lines makes early 1997 the most probable date for the first offering.

Rede Eléctrica Nacional, which runs the national power transmission grid, is expected to be excluded from the privatisation and maintained 100 per cent state-owned and run.

The approximate value of Es1,400bn for EDP is subject to the findings of independent valuations, but officials say it would be difficult for the group to be given a value that was significantly lower.

Analysts consider EDP's main attractions to be high

levels of turnover, production and operational cash flow as well as its internationalisation plans and business opportunities.

The company is also seen as a "safe" investment, offering stable dividends of a type lacking on the Lisbon stock market.

EDP's increase in profit from Es50.5m in 1994 to an expected Es60bn in 1995 is attributed to improved management of both customer's debts to the company and the group's own debt, which has fallen from more than Es1,000bn to below Es700bn over the past six years. The debt is expected to be reduced by a further Es100m-150m this year, possibly by channelling revenue raised in the privatisation back into the company through a capital increase.

Some government officials believe EDP deserves to benefit from state support of this kind because it has borne the financial costs of creating its own pension fund and of

investing in the electric power of areas which were not economically viable without receiving state subsidies.

Such a measure would have to win the approval of Mr António Souza Franco, the finance minister, and be weighed against the benefits of using privatisation revenue to reduce Portugal's public debt to meet the convergence criteria for European monetary union.

EDP's earnings have also improved because of better bill payment systems and a substantial reduction in investment in production plants. In the 1990s, the group had been steering about two-thirds of its total investment into production capacity and the rest into distribution. The proportions have now been reversed, with EDP limiting investment in production to hydro-electric plants. Concessions for new thermal plants are being awarded to the private sector.

Peter Wise

## Time change: by Peter Wise

## The day will start brighter

The country is reverting to GMT after four years of alignment with most of Europe

Portugal's new socialist government hopes to turn night into day. By not moving

clocks forward an hour to summer time as usual on March 31,

the country is to revert to the

same time as Britain and Ireland after four years of

alignment with the rest of

Europe.

Moving back to Greenwich

Mean Time (GMT) is intended

to end an unpopular "dark

age" that forced most of the

country to travel to school and

work before dawn. The govern-

ment believes the change back

will brighten the lives of most

Portuguese who, to judge from

the public mood, believe that

interfering with time in the

name of European unity was a

biological, economic and politi-

cal mistake.

The previous centre-right

government turned the clocks

## MARKETS REPORT

## Mad cows venture into foreign exchange markets

By Philip Gash

The pound yesterday fell sharply as the ramifications of the "mad-cow" disease scare spilled over into the foreign exchange markets.

It lost nearly two pence in early European trade, slipping to an intra-day close of DM2.3485 from Friday's London close of DM2.2643. It later recovered slightly to finish at DM2.2536. It finished a cent lower against the dollar at \$1.6251.

Most of the losses were suffered in early trade and the pound subsequently traded steadily for most of the day. Volumes were fairly thin, in keeping with the generally quiet trading conditions which continue to prevail.

The other move of note was the slight strengthening of the yen against the dollar. This was prompted by the Japanese opposition party abandoning its campaign against the government's plan to resolve the

Jusen loan crisis, and the easing of tensions between China and Taiwan following the weekend presidential poll.

The dollar finished at Y106.13, from Y106.745. Against the D-Mark it closed at DM1.4777, from DM1.4783.

The D-Mark was slightly easier in Europe following the three state elections in Germany where the ruling CDU and its partner the FDP did well. This was seen as being negative for the D-Mark, which finished at FF3.422 against the French franc from FF3.422.

There was little logic to the market selling sterling, beyond the fact that saturation coverage in the weekend press scared some investors and traders into "something must

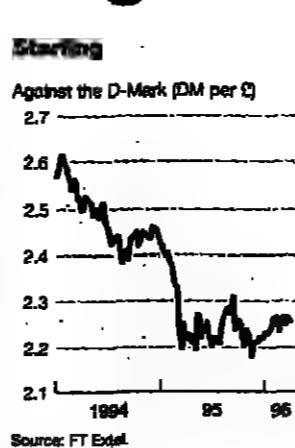
be done" mode. As one analyst noted, sterling rose on Friday afternoon when the talk was of killing the entire national herd of 11m cattle, yet fell yesterday when that figure had been cut to a possible 4.5m having to be killed.

Mr David Cocker, economist at Chemical Bank in London, said: "Had there been other factors for the market to consider, the 'mad cow' issue would not have been so dominant."

While gilt prices recovered later in the day after a calming statement from Mr Stephen Dorrell, the health secretary, sterling did not follow suit.

HSBC Markets said: "The campaign was not explicitly anti-EMU enough to read the SPD's position as a vote for or against monetary union."

If the weekend political news was negative for the D-Mark, then regional inflation data had the opposite effect. Analysts said it was consistent with national inflation around 1.2 per cent, which should



mean that inflation fears will not be an obstacle to the Bundesbank council cutting rates when it meets on Thursday.

One development on the subject of EMU yesterday came in the form of comments from Mr Hans Tietmeyer, the Bundesbank president, who said in a TV interview that there was "no difference of view between us and the federal government" (over monetary union). Last week there was speculation in the German press that Mr Tietmeyer preferred some sort of delay to the single currency.

Interestingly, most US investors remain sceptical about EMU. Mr Byron Wien, a senior strategist at Morgan Stanley in New York, says: "In the US, most of us consider EMU a lost cause."

Speaking in Brussels, Mr Alfonso Verplaetse, the Belgian central bank governor, warned against delaying EMU. "I am convinced that if EMU does not start on January 1, 1999, we will have to wait another 20 years before we will be in the same situation again."

One interesting angle on the EMU project emerges from economists at Merrill Lynch in New York. They note the fol-

lowing paradox: "Germans fear there is not enough of the Bundesbank in the European central bank. Other Europeans fear there is too much of the Bundesbank in the ECB."

The concern among Germans, they argue, is that the Euro will be a weak limitation of the D-Mark. For other EU countries, though, with high unemployment, the worry is that "the new ECB, cast in the mould of the Bundesbank, will be less sympathetic to the task of reducing unemployment."

HSBC Markets said: "The campaign was not explicitly anti-EMU enough to read the SPD's position as a vote for or against monetary union."

If the weekend political news was negative for the D-Mark, then regional inflation data had the opposite effect. Analysts said it was consistent with national inflation around 1.2 per cent, which should

WORLD INTEREST RATES										
MONEY RATES		LIBOR								
March 25	Over night	One month	Three months	Six months	One year	Lomb. rate	Dis. rate	Repo rate		
Belgium	3.6	3.9	3.9	3.8	3.5	7.00	3.00	-	-	-
week ago	3.5	3.8	3.8	3.5	3.4	7.00	3.00	-	-	-
France	3.8	4.1	4.1	4.1	4.1	3.80	-	-	-	-
week ago	4.1	4.1	4.1	4.1	4.1	3.80	-	-	-	-
Germany	3.3	3.3	3.5	3.5	3.5	5.00	3.00	1.30	-	-
week ago	3.3	3.3	3.5	3.5	3.5	5.00	3.00	1.30	-	-
Ireland	5%	5%	5%	5%	5%	-	-	-	-	-
week ago	5%	5%	5%	5%	5%	-	-	-	-	-
Italy	8.2	8.5	8.5	8.5	8.5	10.00	5.00	8.5	8.5	8.5
week ago	8.5	8.5	8.5	8.5	8.5	10.00	5.00	8.5	8.5	8.5
Netherlands	3.5	3.5	3.5	3.5	3.5	3.50	3.00	3.30	-	-
week ago	3.5	3.5	3.5	3.5	3.5	3.50	3.00	3.30	-	-
Switzerland	1.5	1.5	1.5	1.5	1.5	5.00	1.50	1.50	1.50	1.50
week ago	1.5	1.5	1.5	1.5	1.5	5.00	1.50	1.50	1.50	1.50
US	5%	5%	5%	5%	5%	-	-	-	-	-
week ago	5%	5%	5%	5%	5%	-	-	-	-	-
Japan	1.5	1.5	1.5	1.5	1.5	5.00	1.50	1.50	1.50	1.50
week ago	1.5	1.5	1.5	1.5	1.5	5.00	1.50	1.50	1.50	1.50

LIBOR interbank fixing rates are offered rates for \$10m quoted to the market by four reference banks on 11:00 London working day. The banks are Barclays Trust, Bank of Tokyo, Deutsche and National Westminster.

Market rates are shown for the domestic Money Rates, US CDs, ECU & SDR United Deposits (Day).

LIBOR rates are also shown for the domestic Money Rates, US CDs, ECU & SDR United Deposits (Day).

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Prices of certain older insurance linked plans subject to capital gains tax in some states.	(*) Funds not yet SEB recognized. The regulatory authorities for these funds are:
Bermuda - Bermuda Monetary Authority	Guernsey - Financial Services Commission
Ireland - Central Bank of Ireland	Isle of Man - Financial Supervision Commission
Jersey - Financial Services Department	Luxembourg - Institut Monétaire Luxembourgeois.
Monetary charge - Charge made on the value of assets.	Buying price - Price of redemption.
Selling price - Price of new units.	Buying price - Price of new units.
There are three standard ways the fund manager's costs are set as a percentage of the fund's valuation point unless indicated by use of the following symbols:	
NP - 0001 to 1100 hours	
(+) - 1101 to 1400 hours	
(+) - 1401 to 1700 hours	
(+) - 1701 to midnight	
E - Extra charge on sale of units	
- Manager's fee percentage deducted from capital.	
- Monthly pricing F - Forward pricing	
- Discretionary use of US taxes.	
- Periodic premium insurance plans.	
- Single premium insurance	
- Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities).	
- Offset price includes all expenses except agent's commission.	
- Previous day's price.	
SE - Standard gross.	
- Yield before Jersey tax.	
1 - Yield before tax and - Ex-distribution.	
o - Only available in multiple holdings	
g - Yield column shows annualized rates of NAV increase	

## MARKET REPORT

## More bid speculation fails to halt market slide

By Steve Thompson,  
UK Stock Market Editor

A nationwide preoccupation with "mad cow disease" and its implications for the various sectors of the stock market, plus a sudden realisation that the scare could have big implications for the economy, weighed heavily on share prices yesterday. The market's two main indices, the FT-SE 100 and the FT-SE Mid 250, lost their recently hard won 3,700 and 4,300 levels.

At the close of a rather tense and unhappy session, the FT-SE 100-share index was left nursing a 35.1 decline at 3,681.9.

It was only the constant feeling

that another big bid, or series of bids, could appear at any moment that prevented a much steeper fall in the market.

And the recent confident performance of the FT-SE Mid 250 index, which has been founded on takeover prospects, mostly in utilities, was undermined by hefty losses associated with the UK beef scare.

The scare had 250 lost 7.8 at 4,295.5.

Dealers complained that turnover had been badly affected by the beef disease worries. At 6pm, trading volume in equities had reached 690.1m shares, not too bad for a Monday, when market activity is traditionally restrained.

Volume was boosted by heavy

turnover in a handful of smaller stocks such as Birs Group, Bula, Queens Moat and Regent Corporation. The combined turnover of that group accounted for 82m shares, or around 12 per cent of the total.

There were other reasons behind the market's disappointing showing but it was mostly the "mad cow" story that unsettled sentiment.

Reassuring comments by the government about the BSE scare did precious little to sooth frayed nerves in the market, where the biggest impact was in the food manufacturing and retailing areas.

Gilt came under early selling pressure after strategists pointed out the likely dangers to the public

sector borrowing requirement and the balance of payments of any moves to destroy the UK's dairy and beef herds. Towards the close of the day, the market was not to be forgiven for this one," said a senior trader.

Thereafter there was no real respite for the market, with the Footsie losing ground throughout the day and dipping significantly an hour before the close.

The day's takeover speculation focused principally on Thorn EMI, where dealers became increasingly excited about a rumoured bid from Time-Warner and Ladbroke, where talk of a takeover offer from any one of three companies has long been in the market.

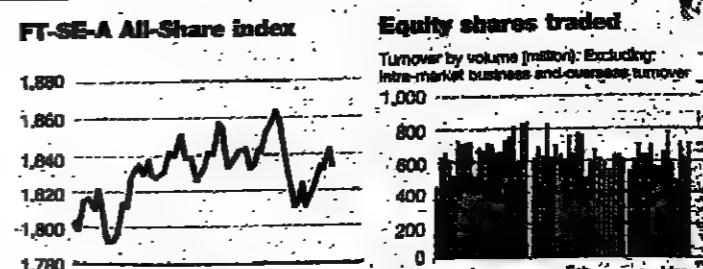
Some substantial selling of stocks, such as Northern Foods and Unigate, both heavily involved in milk sales in the UK, plus equally significant weakness in animal feed stocks such as Harrison's & Crossfield and Dalgety, drove the market sharply lower from the outset.

Dealers also pointed to the damage the beef scare had done to the government's credibility. "This whole thing has run out of control and is damaging sentiment in the market, the government will not be forgiven for this one," said a senior trader.

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## FT-SE-A All-Share index



## Equity shares traded

Turnover by volume (million): Excluding inter-market business and overseas turnover

1,000  
800  
600  
400  
200  
0

Jan Feb Mar

1996 1996 1996

## Indices and ratios

FT-SE 100	3681.9	-25.1	FT Ordinary Index	2755.8
FT-SE Mid 250	4295.5	-7.8	FT-SE A Non-Fins p/c	165.0
FT-SE 350	1785.4	-10.5	FT-SE 100 Fut. Jun	3575.5
FT-SE A All-Share	1838.81	-8.70	10 yr Gilt yield	8.06
FT-SE A All-Share yield	3.03	3.02	Long gilt/equity yld ratio	2.22

## Best performing sectors

1 Distributors	0.01	1 Life Assurance	-0.11
2 Engineering/Vehicles	-0.05	2 Diversified Inds	-0.12
3 Oil Integrated	-0.03	3 Food Producers	-0.11
4 Electronic & Elec	-0.02	4 Paper, Pkgs & Print	-0.11
5 Investment Trusts	-0.02	5 Household Goods	-0.10

## Worst performing sectors

1 FT-SE 100 INDEX FUTURES (Liffe) £10 per full index point

Open 3700.0 Price 3575.5 Change -245.0 High 3705.0 Low 3575.0 Est. vol 9054 Open int 2340

Jun 3692.5 -245.0

Aug 3682.5 -245.0

Jun 4321.0 -4.0

Aug 4321.0 -4.0



4 pm close March 2

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**FINANCIAL TIMES**

AMERICAN

# PO

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## AMERICA

# Tech stocks fall as bonds support Dow

## Wall Street

US shares were mixed in mid-day trading yesterday as strength in the bond market gave support to broader indices, while a sell-off in the technology sector led to losses on the Nasdaq composite, writes Lisa Brunner in New York.

Blue chip shares in the Dow Jones Industrial Average jumped 42 points in the first half-hour of trading before spending the rest of the morning settling back nearer to Friday's closing levels. By 1pm the Dow was up 15.54 at 5,652.17.

The Standard & Poor's 500 had gained 1.33 at 651.85, while the America Stock Exchange composite eased 0.20 to 568.15. New York, SE volume was 186m shares.

Broader indices got some support from gains on the US Treasury market, where the yield on the benchmark 30-year bond fell to its lowest level since the market was joined two weeks ago by surprisingly strong employment figures.

Technology shares, however, fell in morning trading, causing the Nasdaq - which is about 40 per cent technology issues - to give up 7.45 at 1,094.77. The Pacific Stock Exchange technology index shed 1.1 per cent.

IBM, which is traded on the NYSE, posted the biggest decline of the 30 companies in the Dow. In early afternoon trading, its shares were 524 cents lower at \$111.75. Hewlett-Packard shed \$1.75 to \$65.50 and Compaq Computer was 51 cents lower at \$88.75.

On the Nasdaq, Dell Computer lost \$1 at \$31.45. Apple

Computer was 51 cents lower at \$24.50 and Gateway 2000 dipped 5% to \$25.50.

C-Cube Microsystems dropped \$8 or 18 per cent to \$45.75 after IBM presented a line of audio-video encoding systems that will compete with C-Cube's products. Micro Systems shed \$28 or 52 per cent to \$24.25 after the manufacturer of retailing computer systems said it expected third-quarter earnings this year to be lower than those of a year ago.

Elsewhere, General Motors added \$1.15 at \$54.15 as the bigest of the Big Three US motor companies began to restart factories that had been shut by a 17-day strike in a Dayton, Ohio, parts plant.

Merck needed \$1.15 to \$82.40 after the company warned that its new drug for the treatment of osteoporosis, Fosamax, had caused stomach irritation in some patients.

## Canada

Toronto was supported at mid-session by mutual fund cash flowing into the market ahead of the end of the financial quarter.

The TSE 300 index had gained 11.37 by noon at 4,984.00 in volume of 35.8m shares.

The banking sector was helped higher by stronger bond markets and an improving interest rate outlook after Friday's announcements from the major banks that they were cutting their prime lending rates.

Toronto-Dominion Bank rose 65 cents to \$23.24, Canadian Imperial Bank of Commerce added 65 cents at \$24.15 and Bank of Montreal firmed 65 cents to \$23.15.

On the Nasdaq, Dell Computer lost \$1 at \$31.45. Apple

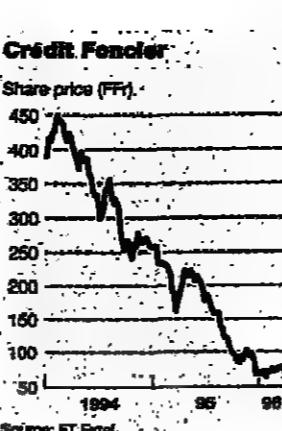
## EUROPE

# Philips, down 11%, gives Amsterdam a surprise

Philips surprised AMSTERDAM by announcing that it expected to report a first-quarter result "substantially" below the previous year's figure. It was known that the consumer electronics market was weak in the US and in Europe, but the surprise was compounded by the fact that the company's results for this period were not due until the end of next month. The stock plummeted 7.20 or 11 per cent to 15.59 in high volume of 15m shares.

Mr Dennis Exton at Nikko Europe said that a weak first quarter had been on the cards, given the extensive publicity that had been given over the past few months to the downturn in the semiconductor industry. The problem facing Philips now, he added, was that, in spite of the restructuring measures that had been embarked upon, the company was still not achieving the economies of scale that some of its Japanese competitors, for instance, were managing.

In addition, Philips was still incurring substantial start-up and operating costs from new ventures just at a time when global demand for consumer electronics and semiconductors in general appeared to be weakening. He felt that one option for Philips was to "buy growth" through the acquisition of companies in the media



and media services sector.

The AEX index slipped 0.72 to 527.45, after a session's high of 527.48.

PARIS galloped through the 2,000 level on the first day of the new account, encouraged by the return of foreign investors. The CAC-40 index rose 22.48 to 2,003.82.

Credit Foncier de France, the specialist mortgage bank, suffered a heavy loss, closing FFr.20 or 7 per cent down at FFr.272.80. Analysts said reports circulating in some domestic newspapers that the financial institution might announce very large provisions for 1995 higher at an Ibis-indicated

2.514.30.

Sentiment was lifted by the success of the ruling CDU/FDP coalition in the weekend

suffered in recent years because of exposure to the problems which had affected the intensely competitive property market, they said. In addition, CFF suffered after the government confirmed last September, following months of speculation, that it was abolishing a subsidised loan programme for which CFF was one of only two providers. Since that time the group's shares had fallen from the FFr.300 level, with an additional disincentive to investors in the blocking last November, of proposed merger which would have provided a recapitalisation of some FFr.1bn. CFF, which had no comment on yesterday's reports, said it was due to publish its 1995 results on April 4.

Eurotunnel was another casualty, the stock tumbling 40 cents or 7 per cent to FFr.5.30 as investors reacted to reports that the group might issue bonds to refinance its substantial debt load.

FRANKFURT registered yet another all-time high but it did so with limited conviction, turnover falling from Dm9.5bn to Dm7.3bn as the Dax index recovered last Friday's post-bourse losses and closed 3.4% higher at an Ibis-indicated

2.514.30.

Sentiment was lifted by the success of the ruling CDU/FDP coalition in the weekend

FT-SE Actuaries Share Indices									
Mar '95	Honey charges	THE EUROPEAN SERIES							
		Open	10.30	11.00	12.00	13.00	14.00	15.00	Closes
FT-SE Eurotrack 100	1622.34	1621.21	1620.95	1621.24	1621.24	1621.24	1622.07	1622.07	1622.07
FT-SE Eurotrack 200	1678.65	1678.15	1678.05	1680.11	1680.11	1681.00	1681.00	1681.00	1681.00
May 22	1612.98	1610.28	1608.30	1608.65	1608.65	1608.65	1608.65	1608.65	1608.65
May 22	1655.11	1670.00	1577.74	1578.03	1578.03	1578.03	1578.03	1578.03	1578.03
Mar 18									

Stocks were 1000 20/10/95, High/M: 100 - 1622.84; 200 - 1681.59; Low/M: 100 - 1612.26; 200 - 1577.81; ↑ Partic.

Banking elections, which firmsed bond markets, and financials ahead of a string of bank results. Banking shares did well on the day, Commerzbank rising Dm4.90 to Dm33.70 on a 106 per cent jump in 1995 operating profits; but insurers did better, Allianz closing DM57 higher at Dm2.78, and Munich Re gaining DM70 at Dm3.140 on the more direct link perceived between bonds, and insurers' asset values.

SAP, rising Dm1.60 to 6.7 per cent to Dm21.75. Mr Lothar Lubinetski at Knabnik Securities said the software group had underperformed since it was co-opted into the Dax 30 last September. Other winners included Linde, the fork lift specialist, up another Dm26 to Dm93 following good results last week; Hoechst and BASF on the chemicals restructuring story; and Adidas, the sportswear group, Dm3 higher at Dm1.07 as it extended the upgrading that

climate also benefited insurers more than banks, Swiss Re jumping SFr225 to SFr1,265 after last week's underperformance.

Alusuisse, up SFr7 to SFr1,002, pierced the psychologically important SFr1,000 level in spite of last week's James Capel sell recommendation. Swissair continued its ascent, rising SFr12 to SFr1,345 after last week's 19.3 per cent surge.

Elektrotvaot moved forward SFr1 to SFr3.67 ahead of a news conference later in the day.

MILAN was weak as political uncertainties again kept investors away and the Comit index lost 4.11 to 333.29.

Telecommunications were in focus. Telecom Italia fell Ls8 to Ls2.44 after its presentations to analysts in Milan on Friday and London yesterday. Stet was Ls9 weaker at Ls4.45 but Telcom jumped Ls8 to Ls2.73 on news of increased investment in its GSM activities.

However, Mr William Lawrence at Robert Fleming downgraded Tim, citing growing competition from the Olivetti controlled Omnitel, the shares' performance since flotation last July and the company's need to sign up increasing numbers of new subscribers simply to hold revenues flat.

Written and edited by William Cochrane, Michael Morgan and John Pitt

## ASIA PACIFIC

# Nikkei gains 1%, banks rally on housing loan hopes

## Tokyo

Hopes of an imminent resolution of the government's housing loan liquidation plan revived the banking sector, and the Nikkei average rose 2.4% to 19,515.44.

The index moved between 20,745.91 and 20,945.58. Foreign investors bought banks and cyclicals.

SS Pharmaceutical, a drugs maker specialising in proprietary brands, surged Y50 to Y726 on reports that Boehringer Ingelheim, of Germany, had purchased a 9.2 per cent stake from Cosmo Credit Union, a small financial institution which collapsed last August. After the market closed, SS Pharmaceutical said it would write off Y100 in losses related to Cosmo.

Higher crude oil prices lifted oil refiners. Nippon Oil advanced Y14 to Y688 and Mitsubishi Oil Y80 to Y890.

In Osaka, the OSE average rose 17.35 to 21,920.66 in volume of 42.5m shares.

The ruling coalition parties won an upper house by-election in central Japan over the weekend. This prompted expectations that the impasse over the budget bill negotiations would soon end, and the 225 index gained 21.52 to 20,915.44.

The 100-share index fell 32.71 to 1,486.56, with PTCL dropping RS220 to RS60.40.

BANGKOK retreated as rumours circulated about the future of the central bank governor. The SET index lost 8.62 at 1,304.06 in 81.6m turnover.

Brokers said the market's fall came during the afternoon as stories began to emerge that the bank governor had been dismissed. The story was described as "groundless" by the bank.

TAIPEI appeared to find little

satisfaction in the weekend's presidential election which resulted in a victory for the incumbent president, Lee Teng-hui. The weighted index ended just 0.96 up at 9,067.51, off an opening high of 9,188.01 in turnover of TWD4.50m.

Sharing shares attracted interest on expectations that Beijing and Taipei were likely to begin discussing direct transportation links after the election.

Yang Ming Marine gained 30 cents at T\$32.6 and U-Ming Marine rose 60 cents to T\$39.3.

HONG KONG detected signs of an easing in China-Taiwan tensions, and the Hang Seng index closed 65.03 higher at 11,111.76, after 11,105.07. In

turnover up from HK\$4.29bn to HK\$4.96bn. Among key index stocks, HSBC surged HK\$2.20 to HK\$118.50 after going ex-dividend. Cheung Kong rose 60 cents to HK\$105.60 and HK Telephone 16 cents to HK\$15.10.

EUJALA LUMPUR looked for a friendly annual report from Bank Negara tomorrow and thence along with heavy buying in Petronas Gas shares, pushed the KSE composite index to a new closing high for the year of 1,180.83, up 10.18.

Petronas Gas climbed to a peak of M\$12.20 before ending at M\$12.60, up 60 cents, on the market's second heaviest volume of 6.2m shares.

SINGAPORE property related stocks continued to see

good interest, Orchard Parade climbing 27 cents to \$6.25 on the contention that, like a number of stocks in the sector, it was trading at a discount to asset value. The Straits Times Industrial index finished 6.74 ahead at 2,405.47.

SYDNEY saw BHP and CRA dominating turnover as the All Ordinaries index moved up 10.4 to 2,256.4. Overall volume was 21.8m shares worth \$805m, with rises leading falls by 457 to 401.

BHP was off 8 cents at A\$15.82 after an intra-day low of A\$15.78 following the announcement of lower than expected 1995 profits. CRA fell 12 cents to A\$15.15.

WELLINGTON was dragged

## MARKETS IN PERSPECTIVE

% change in local currency ↑		% change in local currency ↓		% change in US \$ ↑		% change in US \$ ↓	
1 Year	4 Weeks	1 Year	4 Weeks	1 Year	4 Weeks	1 Year	4 Weeks
Austria	+1.63	-1.73	+3.13	+8.25	+5.28	-5.07	-1.23
Belgium	+1.40	-0.72	+22.11	+1.75	-0.08	-1.23	-0.23
Denmark	-0.83	-2.30	+15.77	+4.21	-3.23	+1.38	-0.08
Finland	+0.35	+0.82	+8.45	+5.16	+0.48	-0.08	-0.51
France	+0.84	+0.53	+11.4				

# Fear of mass slaughter hits dairy shares

By Alison Maitland, David Blackwell and Jimmy Burns

Share prices of dairy and animal feed companies fell sharply yesterday amid fears of a mass slaughter of dairy cows and a deepening consumer backlash against beef.

Unigate lost 30p to 407p and Northern Foods fell 16p to 183p on concern that a cull of cows would create milk shortages for dairy processing companies.

A dairy industry official said a slaughter of herds could lead to thousands of job losses in cheese, butter and skimmed milk powder manufacturing as scarce milk supplies were targeted at the priority liquid milk market and imports of dairy products increased.

Between 12,000 and 15,000 people are employed at about 200 plants across the UK making cheese, butter and milk powder. "Either we end up without fresh milk supplies or the cheese industry goes out of business," said the official.

Dalgety, which produces animal feedstuffs, saw its share price drop 16p to 423p. Feed companies face increased raw material costs following last week's ban on meat and bone meal in pig and poultry feed. There are also fears a slaughter of cattle would depress demand for feed.

Wimpy International and Wendy's International, the burger restaurant chains, yesterday followed McDonald's in dropping British beef from their menus.

One of London's most popular beef restaurants, the Dutch-owned Gaucho Grill near Piccadilly, launched a publicity campaign to reassure its customers that it serves only imported Argentine beef.

Retailers are also stepping up measures to reassure customers that food containing beef or beef by-products is safe to eat.

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By Robert Rice and Mark Suzman

The government could face legal action from victims of Creutzfeldt-Jakob Disease linked to BSE, lawyers said yesterday. The Law Society said it was unaware of any cases being launched so far, until recently it was thought impossible to prove the fatal human brain condition was caused by BSE.

But the admission by government scientists that 10 recent

cases of CJD involving people under 45 were more likely than not to be linked to BSE had improved the chances of successfully proving causation.

Mr Richard Meenan, a partner with London law firm Leigh Day & Co said: "We are told that statistically these cases are unlikely to have arisen by chance and of all the competing causes BSE is the most likely. If that assessment is correct and scientists backed that in a legal setting, you would be able to prove causation."

Mr Meenan said there would still be problems in proving government negligence. The important period was between 1986 and 1988 and little was known about what was going on in government at the time.

Experts would be needed to testify as to when the disease was likely to have been contracted and the likely incubation period. The more recently the disease was contracted the stronger the case in negligence, he said.

The attitude of the government to the risk that BSE might cross the species barrier and infect humans would also have to be explored. A requirement to take adequate precautionary measures is increasingly being seen in the European context in such areas as environmental laws.

The question of whether other countries would have acted more quickly might therefore become relevant.

However, health insurers said yesterday that even if CJD

were to become an epidemic it would not have a vast impact on the health insurance industry. The nature of the disease meant it was not covered by the vast majority of policies.

A spokesman at Bupa, the country's largest provider of Private Medical Insurance (PMI) said that the company was not concerned about the possible impact of CJD because it is a "chronic" illness - one that is incurable or cannot be improved by medical treatment - rather than an "acute" one.

The government yesterday pledged £230m (\$352m) of public money to help cover decommissioning costs of nuclear power stations. The move reversed its promise that the private sector would shoulder all liabilities as part of nuclear privatisation.

The climbdown is understood to have salvaged the £2.6bn privatisation of British Energy, the future owner of the UK's nuclear generators, which was threatened by a row over liabilities.

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## UK NEWS DIGEST

### About-face on nuclear sell-off

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### Jardine Fleming arm investigated

Jardine Fleming, the Far Eastern investment bank half owned by Robert Fleming, yesterday said its asset management arm had been under investigation by UK regulators since last month. It denied any wrongdoing.

Other options for possible assistance for farmers appear fraught with difficulty. Traditionally, the EU has been obliged to buy stock under the intervention system, according to which it takes agricultural produce when prices fall below

market level.

For beef, prices have to fall below 80 per cent of the intervention price of Ecu260 per 100kg and remain there for two weeks. UK beef prices are currently below that level. However, EU officials point out that the British government comes forward with a plan," the EU official said.

EU officials point out that there are no precedents for funding projects on the scale being considered by the UK, although the Commission was involved in co-financing programmes with EU member states to eradicate foot-and-mouth disease and swine fever.

EU officials have also

warned that Mr Fischler will face severe constraints when considering what funds to make available in any emergency package.

Mr Franz Fischler, EU commissioner for agriculture, is not expected to address the question of aid for British farmers until the UK has presented its plan for eradicating or containing BSE, and a cost assessment of the action.

"Nothing can happen here until the British government comes forward with a plan," the EU official said.

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Similarly, it would be reluctant to grant farmers export refunds for produce if "there was a reasonable suspicion that the produce was unsellable", the trade official said. The EU has only meagre provisions under the CAP for disease "eradication" programmes - a total of Ecu67m this year.

## NEWS: UK

# Government may face lawsuits over CJD

By Robert Rice and Mark Suzman

The government could face legal action from victims of Creutzfeldt-Jakob Disease linked to BSE, lawyers said yesterday. The Law Society said it was unaware of any cases being launched so far, until recently it was thought impossible to prove BSE was the cause.

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## EU wary of pleas for extra aid for British farms

By Caroline Southey in Brussels

Britain will have to make a strong case in favour of bailing out its cattle farmers affected by the BSE crisis if extra European Union aid from the Common Agricultural Policy is to be released, according to EU officials.

Mr Douglas Hogg, the UK minister for agriculture, said at the weekend that the British government hoped the European Commission would provide an emergency aid package to help pay for a slaughter programme.

"There is nothing automatic about any compensation for situations like this," an EU official said.

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However, substitutes such as fishmeal and soya bean meal are already expensive because of worldwide shortages.

EU officials have also

## Scots protest at England link

By James Buddon

In Edinburgh

The Scottish National party said yesterday that the British government should take steps to distinguish Scottish beef produced on farms covered by a quality assurance scheme from other British beef. The party said such a distinction would be justified because Scotland has a much lower incidence of BSE than England.

Most Scottish beef herds are fed natural products such as grass, turnips and silage and have not been exposed to the ruminant-based feed which carried BSE. A far smaller proportion of cattle in Scotland are dairy cows, which have been worst affected by BSE.

The party also intends to petition European countries to accept Scottish beef which is

covered by the quality assured scheme.

• The BSE crisis will push up raw material costs to animal feed companies, the Agricultural Supply Trade Association said yesterday, Alison Maitland writes. The British government's decision last week to ban the use of animal protein - meat and bone meal - in feeds for pigs and poultry means feed manufacturers are scrambling for alternative non-animal sources of protein.

However, substitutes such as fishmeal and soya bean meal are already expensive because of worldwide shortages.

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## Sale of the HMSO business

By Andrew Jordan

Coopers & Lybrand

The Chancellor of the Duchy of Lancaster is offering the business of Her Majesty's Stationery Office (HMSO) for sale by competitive tender.

HMSO is the main supplier to Parliament and Government of publishing, print and stationery. It also supplies office machinery, furniture, IT equipment and consultancy services to the public sector. It is a modern business with a prestigious history that can be traced back over 200 years.

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■ Approximately 50% of turnover is sub-contract manufacture to High Profile customers.

For further information, please contact Joe Atkinson or Duncan Morris at Deloitte & Touche, Colmore Gate, 2 Colmore Row, Birmingham B3 2BN. Tel: 0121 200 2211. Fax: 0121 695 5555.

**Deloitte & Touche**

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## TECHNOLOGY

**R** For many years, corporate research and development took place in splendid isolation. Companies built leafy, secluded research laboratories in the countryside where scientists could give full rein to their creativity, untrammelled by commercial pressures.

But this physical separation – which was mirrored in the detached attitudes of researchers – has become increasingly unfashionable.

R&D functions are going through a quiet revolution, driven by intensifying competition and shorter product life cycles. They are becoming more closely linked to other parts of the business; researchers are becoming more aware of business economics and the needs of customers.

The urgency of these issues was underlined at a recent meeting of the technology heads from 14 of Europe's most research-intensive companies at Lake Geneva. The colloquium, organised by consultants Arthur D Little, brought together senior technology managers from Philips, BT, Renault, Nestlé, ABB, Audi, SM, Nokia, Ericsson, Aerospace, BASF, Royal Dutch/Shell Group, Siemens and BMW.

Three closely interwoven themes emerged as the top priorities in technology management over the next five years:

- First, building "a seamless innovation process", by bringing together everybody involved in product development from those who dreamt up the original idea to those who took it to market.

This means bridging different functions within the organisation, to get away from the "not invented here" mentality. "We need to change the management style from a functional to a team organisation, with teams consisting of people representing the whole process: marketing people, R&D people, manufacturing people and so on," says Ulrich Hockenberg, a senior manager of Audi.

- Second, changing the "mindset" in the R&D division, by incubating a greater commercial awareness among R&D staff. "Mindset is a major issue," says Jim Street, group research co-ordinator of Royal Dutch/Shell Group.

"All our research people could pass a test on economics; some of them have a very high level of urgency. We just want to change their [the research staff's] mindset so that they understand they get to feel good only if two things happen: they get the job done, and the business they support performs to corporate standards."

- Third, the "strategic" management of technology. This involves developing a clearer understanding



Splendid isolation: researchers are increasingly unlikely to be cut off physically or psychologically from their colleagues

## Quiet revolution

**Vanessa Houlder** begins a series on the new pressures for R&D managers amid intensifying competition

of what could happen in the future, in order to anticipate potential shifts in technologies and markets. "We need to have a way of planning for the unexpected," says Jorma Möhrin, vice president of Ericsson.

"There is no crystal ball, and predicting what's needed for the future is risky, but someone's got to do it – and that responsibility seems to be falling to the chief technology officer more and more," comments Ron Jonash, vice president of Arthur D Little.

Moreover, companies believe they should be building up a clear sense of which competencies should be maintained internally and which would be better coming from outside.

The need to speed up product innovation underpins many of these goals. Craig Tedmon, executive vice president of ABB, argues that researchers in corporate laboratories tend not to have a compelling need to get to the marketplace. "Historically, maybe that was OK but today our markets are so unbelievably competitive that you simply have to move as absolutely fast as possible," he says.

Increasingly, companies believe

that rapid new product development depends on teamwork between people from different parts of the business. In a recent project, BMW took all the members of the development team off-site for two weeks, to get to know each other and crystallise their ideas.

Audi believes it cut the development time for the Audi A4 by half, by forming "concept" teams of 15 to 20 people who represent all the

departments involved.

ABB also favours off-site, crisis-type teams for developing new products. Moreover, it uses "war-game" exercises, with marketing staff representing customers, to simulate the market's response to new ideas. The exercise can have "very controversial and certainly controversial" elements, says Tedmon. He argues, however, that ideas are best

criticised within the company before they are exposed to customers and competition.

The responsibility for the gulf in attitudes between R&D and other parts of the organisation does not lie solely with researchers. According to Arthur D Little, marketing experts are less concerned than R&D people about improving their relationship. When ADL invites equal numbers of marketing and research people to conferences on the interface between R&D and marketing, 90 per cent of the audience is made up of R&D specialists.

Indeed, some organisations are increasingly concerned about how to maintain the balance between projects that focus on customer needs and longer-term issues.

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# Timeless Greek beauties

William Packer visits Venice to see the products of a remarkable people

**A**mong the 14 important exhibitions held at the Palazzo Grassi since it was acquired by Fiat more than 10 years ago, there have been two of broader cultural scope than the purely art historical or aesthetic. Each in its way opened up its subject to a general audience in the light of the latest archaeological research and speculation.

First it was the Phoenicians, then the Celts. Now it is the turn of the Greeks, but not the Greeks of ancient Greece itself, the fount of All Civilisation as We Know It, but the Greeks of the diaspora, most especially westward, and most of all to the southern half of the Italian peninsula and to Sicily. Indeed, this exhibition might as well have been called the Greeks in Italy.

We know from Homer that the Achaeans were an aggressive, energetic and wandering nation, and the point is well made at once that the expansion from the Minoan origins, through the Aegean and on through the Mediterranean, was under way long before Athens rose to its comparatively short-lived pre-eminence in the 5th century BC.

Cuma in the Bay of Naples, perhaps the first Greek polis or independent city-state in the west, was set up by Euboeans from around Chalcis in about 750BC. The essentially imperial idea, that all flowed from the centre, the *metropolis*, and remained dependent on it in terms of duty and allegiance, does not hold.

The point is hammered home in the chronological arrangement of the show, which takes the story from the earliest heroic beginnings, to the slow Hellenistic decline and the final fall under the sway of Rome. It is a story told in terms of parallel development and exchange, and the golden age of Periclean Athens is almost incidental at about half-way.

That is not to say that there was no central cultural influence. Trade and commerce would have made it inevitable to some extent, and such shared and apolitical institutions as the Olympic Games, theatre and religion, worked a strongly unifying effect. But any exchange was clearly both ways and back again.

**T**he Welsh National Opera played Covent Garden last week, with credit and friendly acclaim. For their 12th London "Amoco Season" they brought a new *Car & Pag* double bill and a new Stravinsky *Rake's Progress* (reviewed from Cardiff by Richard Fairman).

It is worth looking hard at such visitors, for we may soon find ourselves depending upon them. We have to be approaching the crazy point when both of our London opera houses will be shut for a couple of years, and visiting companies will have to be a large slice of opera-lovers' bread-and-butter.

Both productions – or all three, if you like, though Elijah Moshinsky's stagings of *Car* and *Pag* are clearly designed as a united pair, played off against each other by contrast – took handsomely to the larger stage.

For Mascagni's *Caratteria* Rusticana, Michael Yeargan's ripely naturalistic Sicilian piazza served the plain, folksy action (what else could you do with this piece?) very well.

One of the most beautiful objects, in its sculptural purity, is a bronze helmet of a Corinthian type, of about 474BC, found beside the Alph, the sacred river, at Olympia. The engraving on its side tells us it was taken as booty from the Etruscans at Cumae, and brought here by "Hieron the Diomene" and the "Syracusans" as an offering to Zeus.

A pair of large, rather squat painted pots – the ceramics are spectacular – with tall, angular, horn-like handles, are Daunian in form but yet with Attic decoration. Was the artist a visitor from Greece, had he trained there, had he picked the manner up from an itinerant painter, or from what had passed through his hands?

It was long thought the spread of the Attic style was fed from a central source, but the discovery of kilns and workshops full of the stuff in southern Italy explodes the myth. Exchange and movement are the rule.

The strength and vigour of the work of the western Greeks sing out, in sculptural form, drawing and decoration alike. Such qualities offset what might be thought a lack of metropolitan purity or sophistication, or a falling away from the high ideal of Classical Art.

**I**ndeed, they register an openness to other influences and sources, a touch of Etruscan here perhaps, in some of the tutelary figures, or the Celtic there, in an extravagant bronze tripod, decorated with leaves and beasts.

It is all too easy, here in Venice, to see in the grotesque stylised masks actors of the 3rd century BC, a distant forerunner of the *commedia dell'arte*.

The drawing on the pots is an unfailing delight, wonderfully inventive and direct, and almost modern in the simplicity the pottery imposes. To think of Picasso and Metzinger in this connection is a cliché of modern criticism, but unavoidable. It does these delicate, timeless images of Arcady, nymphs and shepherds, gods and heroes, no harm.

The perception of the essential decadence of the Hellenistic period, between the decline of Athens as a power and the rise of Rome, has for



Greek treasures in Venice: Busto di Proserpina, terracotta, Museo Civico "G. Fiorelli", Lucera

too long been another, but more damning critical prejudice. Is it its easy naturalism, with the whiff of hedonism about it, that so upsets the purist?

Even so, the period produced some of the most beautiful of all sculpture, represented here by a number of remarkable things – a sinuous statue of a headless woman; a nude female bust, modelled in clay as freshly as any French terracotta portrait of the 18th century; two tiny terracotta girls at knucklebones (all from the 2nd century BC).

At the centre of the show sit the two *Throne* reliefs, of Boston and Ludovisi, rehearsing the old controversy of their putative relationship. It hardly matters, though I doubt the *Boston Throne* to be the 1st century fake some believe it, carved as it is from marble from the same quarry as the Ludovisi. It is just not so good.

The Ludovisi, dating from about 460BC, is wonderful, even though it lacks the heads of the supporting figures, whose exquisite arms, fully carved, reach down to lift Aphrodite from the waves. It is enough.

A magnificent bronze ram from the 3rd century BC, outsize and beautifully patinated over an age of striking, unofficially but effectively concludes the show.

This is a dense exhibition, made too dense perhaps by the texts on every wall. Impossible to summarise, it is fascinating nevertheless.

The Greeks in the West: Palazzo Grassi, S. Samuele, Venice, Italy, until December 8. Sponsored by Fiat.

## Opera / David Murray

### Famous Tune rings out from Welsh visitors

For Leoncavallo's *Pagliacci* melodrama he took the scene chronologically forward, and allowed himself more fantasy: some 20th-century trappings in a stark, visually gripping set, dramatically lit by Howard Harrison.

Although *Car* seemed honest and cultivated, it remained temperate; our wipers were not remotely wrung. The WNO's conductor Carlo Rizzi is much admired in Rossini, but in Mascagni's wacky popular idiom he was shy of incisive effect – there were many sweetly musical, seductively drawn-out passages, much of a muckiness, without strong highs or lows.

The principals (Dennis O'Neill,

Anne-Marie Owens, Peter Sidhom and Menai Davies) went sincerely through their roles; only Leah Marian Jones, as the neglected wife Lola, showed some vital backbone in her modest part.

When O'Neill and Owens voices united for the Famous Tune, it was less of a climactic thrill than a matter of turning earnestly to the next page. The WNO chorus were unfriendly tame, probably because like everybody else – they were singing a one-off performance in a bigger house than they are used to. O'Neill appeared bravely as both the adulterous Turiddu in *Car* and the tragic cocktail Canio in *Pag*, strenuous roles each. He is our

gutsiest, most persuasively Italianate tenor, but by "Vesti la giubba" in *Pag* his heroic ring was fading a little.

Rosalind Sutherland's bright Nedda held firm, Sidhom's Tonio was unimbitiously repellent, Jason Howard's sexy Silvio confidently sung and vividly laid-back. Lovers of *Pag* should have been reasonably satisfied. I should bet nevertheless that our generation is the last for whom *Car* & *Pag* has been a regular fixture. Below a certain age, nobody now knows either *Car*'s Famous Tune or "Vesti la G".

As conducted by Mark Wigglesworth and designed by Laura Hopkins, *The Rake* had a quirker.

more pungent tang, as befits Stravinsky's between-several-stools opera. If Hopkins' sets and costumes, jumping deliberately through successive periods from the notional time of the Hogarth-inspired story to the date of the operatic première (1851), registered no great cumulative effect – the unstable, eclectic manners of the opera are unsettling enough – each scene boasted a clean stamp.

Paul Nilon's crisp little Rake and his Amie Trulove, Alwyn Mellor, were vigorously stylish, with elegant support from Claire Powell's bearded-lady Baba and Neil Jenkins' auctioneer.

A Nick Shadow, the devil himself, Bryn Terfel's looming presence was sufficient without all the heavy menace he forced upon his vocal line. Relentless snarl *à la Anden*, the librettist, would have served his turn well enough and offered more musically expressive variety.

Sponsored by Amoco, the Friends of WNO, the WNO Partnership and the Royal Opera.

## Theatre / Sarah Hemming

### War memories exorcised

**J**ohn Misto's *The Shoe Horn Sonata* is a disconcerting example of the fact that a great subject does not always make a great play. Misto's Australian play, receiving its British premiere at the King's Head in Islington, explores a great subject, and does so with compassion and concern. But his style and structure are efficient, rather than subtle.

The play tells the story of two women interned in a Japanese POW camp during the second world war: Bridie, an Australian army nurse, and Sheila, the well-bred daughter of a British colonial family. We meet them 50 years on, as they are reunited in Melbourne for a stage, despite the best efforts of director Dan Crawford and of Susannah York and Maggie Kirkpatrick, who play Sheila and Bridie.

It is a moving subject, and the play commands your attention throughout, leaving you in no doubt of Misto's respect and admiration for these women.

But it is also a subject that invited sentimentality, which Misto does not always avoid.

and melodramatic outbursts,

which turn into pure ham on stage, despite the best efforts of director Dan Crawford and of Susannah York and Maggie Kirkpatrick, who play Sheila and Bridie.

This is a pity, for otherwise the two actresses are nicely counterposed: York is all pinched lips, delicate poise and refinement as Sheila, who has buried her grief in self-delusion; and Kirkpatrick is all bluff no-nonsense and cheery bluster as Bridie, who has concealed her pain beneath a devil-may-care attitude.

Their final reconciliation, as they wait round the hotel bedroom, is touching, but it is achieved through the sterling persistence of the actresses and their commitment to the material, rather than through the writing itself.

Continues at the King's Head, London N1 (0171-226 1916).

## Music / Richard Fairman

### Cleveland diplomats

**T**he Cleveland Orchestra is described by the state governor as "Ohio's best international ambassador". This year it is being kept busy with ambassadorial missions, as this eight-city European spring tour will be followed by a visit to the Salzburg and Edinburgh festivals in the summer.

The fanfare for its arrival, the orchestra must have been disappointed that paid attendance at the Royal Festival Hall concert last week – its sole UK date on this tour – was not higher. Christoph von Dohnányi, who has been music director since 1984, is no stranger to London audiences thanks to his close association with the Philharmonia and had managed to secure full houses for them earlier in the year at concerts fairly similar to this one.

Perhaps the Cleveland Orchestra is short on mystique – that special aura that seems to form a halo over the heads of the Berlin and Vienna Philharmonics, even when they are playing at less than their best. Cleveland's history since the second world war has been honourable, but less glamorous: two decades of strict classicism under the fearsome Georg Szell, calculated precision under Lorin Maazel in the 1970s and now Germanic thoroughness under Dohnányi.

Purely technical standards of

ensemble and discipline have been high throughout – and still are, to judge from last week's concert (despite a few jet-lagged slips). Dohnányi is no slouch. Just as he challenges his players to reach their top level, so he asks audiences to open their minds. It was a novel idea to open with Ligeti's *Atmospheres* and then go straight into the Prelude to Act 1 from Wagner's *Lohengrin* – contrasting examples of composers exploring motionless sounds hanging high in the ether.

The performance of Schumann's "Spring" Symphony that followed was *sch't* Dohnányi, strong on rhythm and clarity, structure and impulse, but without much beauty. It sounded less romantic than usual. Stravinsky's *Firebird*, performed complete, made an impressive second half and showed the grip that both conductor and players exert on a complex score. There was marvellous detail to enjoy here and virtuosity that never seemed to dazzle for its own sake. In the last brass peroration Dohnányi did not add any gloss or draw out the cinematic final credits; he just played the notes, as written. Stravinsky would have approved.

Sponsored by the Ohio Department of Development, Tour ends in Paris on April 3, 4 and 5.

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## COMMENT &amp; ANALYSIS

Martin Wolf

## A lesson for the Chinese

Beijing needs to imitate Taiwan in order to attain its economic goals and also to achieve unification on a mutually agreeable and beneficial basis

China's threats against Taiwan have been roundly rebuffed in the most effective and - to Beijing - dangerous way: an election. But mainland China's policy has been a gigantic mistake. Instead of threatening Taiwan, China's overwhelming interest is in learning from it. It has much to learn, for Taiwan has an outstanding claim to be the most successful of all economies over the past 45 years.

At \$1,500 in 1984, Taiwan's gross domestic product per head was 87 per cent of New Zealand's and almost two-thirds of the UK's. Between 1951 and 1994, its real gross national product increased 36 times (a compound annual growth rate of 8.7 per cent), while real national income per head rose 11 times (an annual growth rate of 5.8 per cent).

Moreover, the benefits of this staggering growth have been widely shared, since Taiwan's income distribution is more equal than that of most high-income countries. Nor is rapid growth over. Notwithstanding the political uncertainty, Taiwan's economy grew at a compound rate of 6.5 per cent a year between 1990 and 1994. In 1994, Taiwan's 20.1m people generated output worth \$241bn, while mainland China's 1.2bn generated only \$63bn.

Taiwan is an international pariah. But this has not affected its economic performance. With re-exports from Hong Kong and Singapore excluded, Taiwan ranked as the world's 12th largest merchandise exporter in 1994. Taiwan's exports of \$92.9bn were not far behind mainland China's \$121bn. What matters in trade is not political clout but economic competitiveness.

At market prices, Taiwan's income per head is 20 times as high as mainland China's. In purchasing power, it is perhaps six times as high. Its population is highly educated, well travelled and free. Its politics are now democratic. Why should the Taiwanese want to unite with a backward, dictatorial behemoth, even if they

consider themselves Chinese?

Their reluctance is a matter of indifference to China's rulers. But China must take account of the losses it would suffer if it tried to seize Taiwan. It would fail economically and politically even if it succeeded militarily. Taiwan's wealth does not lie in natural resources but in the dynamism of its people, nurtured by a supportive policy environment. If an invasion were followed by imposition of the regime Beijing runs, China would inherit riches.

This is not the only reason which Beijing would lose.

The skills of the Taiwanese have been important for China's development. According to Taiwanese figures, they made 10,764 investments in the mainland between 1991 and 1994, for a total value of \$1.6bn. Unofficial Chinese estimates suggest the figure could be four times as large.

The threat to China is, however, far greater than that.

Successful exploitation of opportunities afforded by the international economy has driven China's rapid recent growth. China needs foreign trade. Because of the absence of secure property rights,

"The rapid growth of a number of east Asian countries is fully explicable in conventional economic terms, that is very high rates of both material and human investment... in Korea and very probably Taiwan, the returns to investment were exceptional in the period 1962-73. This was because industrial capital was combined with a lot of labour. This in turn occurred because reforms to the system of incentives permitted these countries to realise their comparative advantage in labour intensive manufacturers, a comparative advantage that was reinforced by a hard-working, docile, moderately educated labour force."

That is a simple enough strategy to follow. It is one mainland China has increasingly adopted over the past 15 years, with remarkable success, thanks to no small measure to the import of entrepreneurship from Taiwan and Hong Kong. It has followed these policies under Deng Xiaoping precisely because of the example of "the four little dragons" - Hong Kong, Singapore, South Korea and Taiwan. Of these, Taiwan was probably the most influential, both because of the rivalry between the communist rulers of the mainland and the nationalist rulers of Taiwan and because of Taiwan's status as a Chinese province.

Trade is the central feature. Taiwanese exports plus imports equalled 74 per cent of GDP in 1994, against 47 per cent for the UK. Being a small, resource-poor country, Taiwan would enjoy little more than a subsistence standard of living if it were unable to trade.

The essence of Taiwan's strategy was therefore to allow the Taiwanese to exploit the gains from trade. For those desperate to find an active government behind any and every economic success, this is an "export promotion strategy". But, as Professor James Riedel of the Johns Hopkins School of Advanced International Studies in Wash-

ington DC points out, this "strategy" consisted merely of removing obstacles to exporting that the government put in the way in the first place.

Revisionist scholars have challenged the orthodox view of the roots of east Asian success. They note that the South Korean and, to a lesser extent, Taiwanese governments have intervened in their economies, distorted capital markets and picked winners, and argue that this is why they were so successful. A recent article by Professor Dani Rodrik of Columbia University even claims that exports grew automatically in the 1960s once the governments of Taiwan and South Korea had succeeded in encouraging firms to invest.<sup>22</sup> Such expansion of exports, following a government-induced rise in investment, would be a miracle, because unparalleled elsewhere.

None of these convoluted explanations is necessary, since Taiwan's is a perfectly simple story. Over a long period, its government did something so remarkable that it deserves the label "miraculous": it failed to do anything seriously stupid. Its fiscal and monetary policies were conservative. Its trade policies became steadily more liberal. It protected property rights.

Taiwan did not need to be big and powerful. It did not need to be a member of international organisations. It did not need to be a net importer of capital. All it needed to do was allow its inhabitants to exploit the economic opportunities around them and, being Chinese, they did so spectacularly. That is what mainland China has to do, too. If it does, it will become an economic colossus. Indeed, Taiwan's is the only sure route to prosperity for any society, anywhere.

*\* Ian Little, *Picking Winners: the East Asian Experience* (London: Social Market Foundation, 1996). \*\* Dani Rodrik, "Getting Interventions Right: how South Korea and Taiwan grew rich," *Economic Policy*, April 1995.*

McDonald's and Burger King, the UK's two leading hamburger chains, are standing by British beef. They say the prime cuts they have always used for their burgers are perfectly safe for human consumption.

Certainly, both have always shunned offal and meat mechanically treated from carcasses - beef byproducts linked to mad cow disease and Creutzfeld-Jakob disease in humans.

Yet, by Saturday, both will have stopped using British beef in their UK restaurants. Their decisions bear testament to the power of consumer pressure to make companies behave in seemingly irrational ways.

What is more, it is clear to crisis management consultants that McDonald's - which pulled British beef from its menu last Saturday, a week ahead of its rival -

made the correct decision.

From a PR point of view, McDonald's did absolutely the right thing," says Mr John Stanborough, founder of Wallborough, a London firm that helps guide companies through crises. "It was an absolute non-starter to try to get a rather complicated message across that this piece of meat might be all right but that piece wasn't. Raw consumer pressure has completely superseded science."

McDonald's had tried for three months to convince consumers its beef was safe. After the mad cow debate escalated in December, it put leaflets in its restaurants explaining its stance on the meat's safety.

But, once the government admitted last Wednesday that there could be a link between BSE and human disease, confidence crumbled.

In the longer term, it should benefit from taking the initiative. "It was a very shrewd act to show consumers and parents leadership," one industry commentator said. "They could come out of this with an increased market share."

McDonald's already claims

some 70 per cent of sales by UK hamburger chains.

Industry observers believe at

least two other factors besides consumer confidence lay behind McDonald's decision to be the first chain to ban British beef. Most pressing of these was the legal ramifications of serving such meat.

"US companies are neurotic about product liability," one said. It seems implausible that anybody could prove in court that a steady diet of McDonald's British beef hamburgers ultimately caused CJD in a human. But it does seem plausible that US lawyers urged

McDonald's to act quickly in a

UK High Court in which a group has brought libel proceedings

against two environmental activists who had challenged its practices. The company is defending its environmental record, employment practices and the nutritional value of its products. The case has lasted almost 31 months and judgement is expected shortly before the end of the year.

Drawing further lessons about crisis management from events of recent days is hard. It is rare that companies have to respond to - and can bear all the blame on - outside forces.

Usually, they are responding to crises of their own devising, which only makes it more difficult for executives to decide when to cut their losses.

But one clear lesson is the need to take quicker and bigger actions than might seem justified at the time. McDonald's might be accused of exacerbating consumer fears, but it did cut its losses swiftly.

And, as a bonus, it got a two-day headstart on Burger King lining up fast-delivering foreign beef supplies.

Roderick Oram

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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## Greater value in enlightened beef intervention

From Mr Clive Bates.

Sir, Your advice to ministers ("Mad cows and ministers", March 21) ought to include a recognition of the commercial value of enlightened government intervention. It is difficult to imagine consumers relishing the prospect of beef reared on waste offal.

Had the Ministry of

Agriculture Fisheries and Food

championed consumer interest, it would never have permitted this practice. However, once BSE emerged, the government had a responsibility to anticipate the plausible evolution of scientific understanding and take action that prepared for adverse developments before conclusive evidence was available. There was enough reason for concern

in the late 1980s to justify eliminating BSE from the British stock by slaughtering all the infected herds. Instead, ministers used the uncertainties to justify what have turned out to be empty reassurances. Had the government intervened responsibly, the beef industry would not be in free-fall today. Government intervention

may sometimes raise costs, but it is a form of insurance that protects whole markets from the threats that lie ahead. The interactions of individual consumers and producers are unlikely to achieve the same effect.

Clive Bates,  
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London N16 5UF, UK

## Animus not well directed

From Dr Leslie Palmer.

Sir, In his article on UK government ministers sheltering behind science, Joe Rogaly has allowed his anti-establishment animus to run away with him ("What is Mr Dorrell for?", March 23/24). Lord preserve us from the day when ministers of the crown set aside scientific opinion in favour of Mr Rogaly's "common sense", and the sun starts rotating round the world again.

Leslie Palmer,  
9 St Catherine's Close  
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UK

From Mr David Simpson.

Sir, In his article "Problems of uncertainty" (March 19), Martin Wolf writes that the "most intellectually exciting aspect of Keynes' vision was his emphasis on pervasive uncertainty about the future and the consequent difficulty of securing co-ordination of the plans of millions of producers and consumers in a modern economy".

While this interpretation of Keynes is entirely consistent with the view of the market economy espoused by the modern American school, and by Hayek in particular, it is not compatible with modern macroeconomic theory. By

dealing exclusively with aggregates and by assuming that all market participants are perfectly informed at all times, macroeconomic theory simply ignores the problem of co-ordination altogether, a problem which, *inter alia*, gives rise to feelings of job insecurity.

Wolf continues: "Money, being created by the market, is simply not a precise and targetable quantum." Indeed. But this statement applies with equal force to inflation, nominal national income, or any other macroeconomic aggregate.

The suggestion that responsibility for achieving a

target for inflation should be delegated to a government agency might be a "practical response" in a world where such an agency is assumed to be perfectly informed.

But in a modern market economy, where information is decentralised and uncertainty is pervasive, an agency of government is no better informed than the rest of us.

David Simpson,  
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UK

## Proposal of no benefit to US agriculture export effort

From Roger J. Baccaglini.

Sir, US agricultural exports surged to \$53bn last year - an all-time record, 18 per cent ahead of 1994 (\$43.5bn) - and are on their way this year to a new record of perhaps \$60bn, according to recent US Department of Agriculture estimates. Not only does this bring more income to the US, and create more jobs in agriculture and the many suppliers to this industry, but it has also been a significant factor in reducing the US balance of payments deficit.

Perhaps agriculture has been too successful. Now, well into 1995, we see Congress working on what should have been the 1995 farm bill. Now it's called the Freedom to Farm Act. Buried in the Senate version of this oddity is an amendment offered by Senator Richard H. Bryan to change dramatically how funds are used to promote

US agricultural products overseas. "It sure ain't broke," some senators must be saying, "but let's fix it!"

The Market Promotion Program has been largely successful by any objective measurement, but election year politics seem again to be thwarting what is right, appropriate and good for the US. At one time, more than \$325m was being expended in export markets through this programme and its predecessor, the TAA (Targeted Export Assistance) programme.

The Bryan amendment reduces the Senate version of the bill to \$70m (nearly one-third of expenditure just a few years ago) and further stipulates that only organisations recognised as small business concerns or co-operatives are entitled to

these funds for brand advertising.

Proponents of the

amendment are happy because it keeps the so-called "giants" - McDonald's, Tyson, RJR, Gallo, Frito-Lay, - from getting US funds to promote their agricultural products overseas. Righteousness about reduced funding and allowing only what the Senate considers to be "small businesses" to participate demonstrates a huge void in understanding of how agriculture works, how the US competes in the world, and why the government chose, in the first place, to help agriculture export its products.

As to how agriculture works, let us use Gallo wine as an example. Clearly, it is the undisputed leader in the US and probably the largest wine producing company in the world. That wine comes from grapes grown in Gallo-owned vineyards as well as hundreds of vineyards owned by small farmers who would meet the definition of small business.

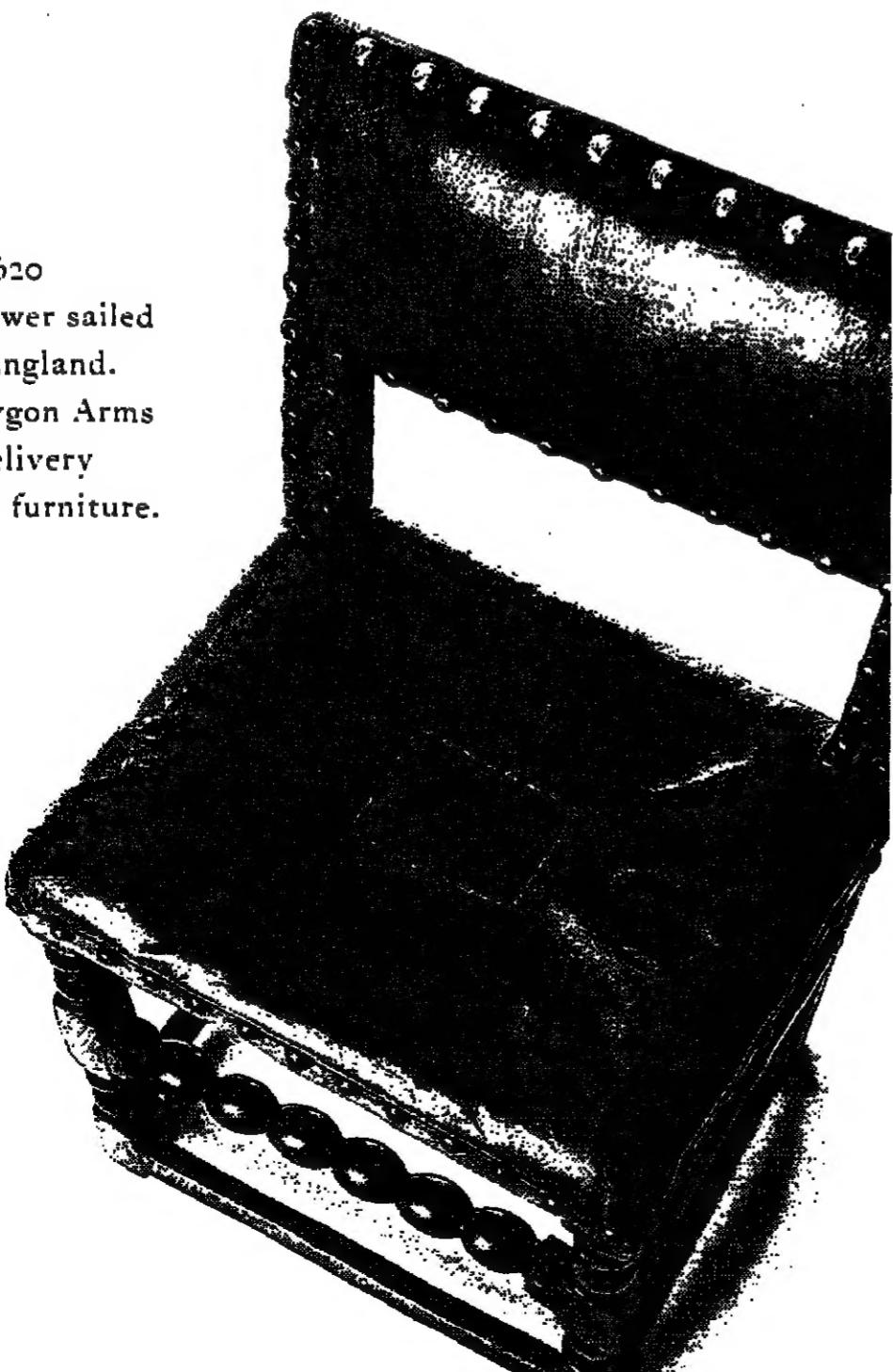
However, the Senate bill, as written, would force each small family farmer to build and operate a winery in order to participate in the international promotion programmes. Then it would force them to compete overseas with Gallo and others for a share of the market.

It is far more efficient to let the undisputed world leader produce and sell the wine

and let the farmer continue to grow the wine grapes. The facts of the matter are that the small farmer is in no position to

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## FINANCIAL TIMES

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Tuesday March 26 1996

## Germany opts for the known

Germany's voters have yet again confounded the pundits and the pollsters. Instead of punishing Chancellor Helmut Kohl and his coalition partners, the Free Democrats, for record unemployment and languishing growth, they have cloistered the opposition.

The plight of the poor Social Democrats seems to know no end. In Sunday's three important state elections, they lost votes on the left to the environmentalists Greens, and on the right to Mr Kohl's Christian Democrats. As for the FDP, the party has hauled itself back from the brink of extinction, after a string of disastrous electoral defeats, with a vigorous policy mix of tax-cutting, deregulation and an assault on bureaucracy.

The first lesson to be learned seems to be that German voters are fundamentally conservative, especially when their prosperity is under threat. With one in nine out of work nationwide, a chill wind is blowing even in wealthy Baden-Württemberg, home state of Daimler-Benz. Instead of revolting, they have clung to the predictable and familiar - above all, the reassuring figure of Chancellor Kohl - and shunned the uncertain future offered by the SPD under the mercurial Oskar Lafontaine. Even the FDP has scarcely reinvented itself, but chosen merely to stress its liberal economic credentials rather than its traditional commitment to civil liberties.

Mr Lafontaine has clearly failed to give the SPD new focus since he displaced the luckless Rudolf Schäffer as leader last year. His party's attempt to woo popular support by calling for the postponement of European economic and monetary union, and the single currency, backfired. By calling into question its long-standing commitment to European integration, it appeared to be opportunistic. In a state like Baden-Württemberg, which relies on its exports, there are also growing doubts about the wisdom of an ever-stronger D-Mark: the euro no longer looks quite so unattractive. Mr Lafontaine's timing was all wrong.

In the prosperous south, the SPD lost blue collar votes to Mr Kohl's CDU as well as to the far-right Republicans. In the north, it lost women's votes, and some of its middle-class support, to the Greens. The latter have shown they cannot be ignored as potential coalition partners in state governments.

In some ways, however, it is the revival of the ailing Free Democrats which is the most reassuring message of these elections. For Germany would be much the poorer for the loss of its true liberal conscience. That was precisely the fate threatened by the failure of the FDP to win the minimum five per cent of the votes needed for seats in state parliaments, in no fewer than 12 elections. A strong voice for deregulation and lower taxation is always welcome.

Mr Lafontaine has clearly failed

## Aegean glimmer

Mesut Yilmaz, the new Turkish prime minister, is to be congratulated on making the first move in an effort to improve Greek-Turkish relations. Relations between these two nominal allies have, for too long, been unnecessarily bad. As recently as the end of January, they very nearly went to war for possession of a tiny islet in the south-east Aegean.

That incident, which occurred on Costas Simitis's first day as Greek prime minister, appeared almost to have been set up to humiliate him. Greece had to withdraw troops from what it firmly believes is its own territory. Tansu Ciller, the Turkish prime minister, enjoyed a triumph in the Turkish media. But such victories are not as cheap as they may seem at first sight.

Turkey is clearly the stronger power in military and geopolitical terms. Its undoubtedly strategic importance assures it, most of the time, of US support. But Turkey's interests are much more directly affected by relations with the EU: not only its economic interests but also the Turkish side's historic ambition to affirm the country's European identity. And here, however much Turkey may dislike it, Greece has the advantage, simply by virtue of the fact that it is already an EU member.

Last year, Greece was able to obtain a starting date for membership negotiations with Cyprus from its EU partners, as the price of its consent to the customs union between the EU and Turkey. This year, to express its displeasure over the islet episode, Greece has been blocking EU aid, including European Investment Bank loans, which Turkey needs to help its industry adjust to the customs union. Mr Yilmaz's carefully worded statement on Sunday that Turkey wanted disputes in the Aegean to be "settled by peaceful means in accordance with international law", appeared designed to meet Greek demands for a Turkish pledge not to use force, and to respect international treaties, ahead of today's meeting between Turkish and EU ministers in Brussels.

Yesterday, a national holiday in Greece, the Greek government appeared to have been caught off balance and gave only a lukewarm response. Mr Simitis is obviously in a delicate position, especially now that his predecessor, Andreas Papandreou, is out of hospital and, quite possibly, on the lookout for opportunities to make trouble.

Mr Yilmaz, too, has limited room for manoeuvre, as temporary leader of a minority government. But he has made a bold and imaginative opening move which deserves to be taken seriously. Both sides need the help of third parties in building confidence. And, since the US is the object of Greek suspicions while the Turks understandably regard the EU as biased in Greece's favour, it is a case which cries out for transatlantic co-operation.

## Mutual friends

The advertisements for Halifax, the UK's biggest building society, urge us all to "get a little extra help - from the Halifax". Clerical Medical and General, the UK's sixth largest mutual life assurance group, has taken up the offer, in assesting to Halifax's £50m take-over bid, subject to the approval of its policyholders. The strategy is debatable, although more on Halifax's side than Clerical Mutual's. The plan also raises wider, more troubling questions about policyholders' rights and ownership of mutual reserves.

The deal consists of two payments: £70m to the Clerical Medical with-profit fund, and £20m as shareholder capital. The 700,000 odd policyholders who mutually own the group will benefit from £11m in special bonuses from the with-profit fund, plus £16m from existing surpluses to increase the ultimate value of their policies.

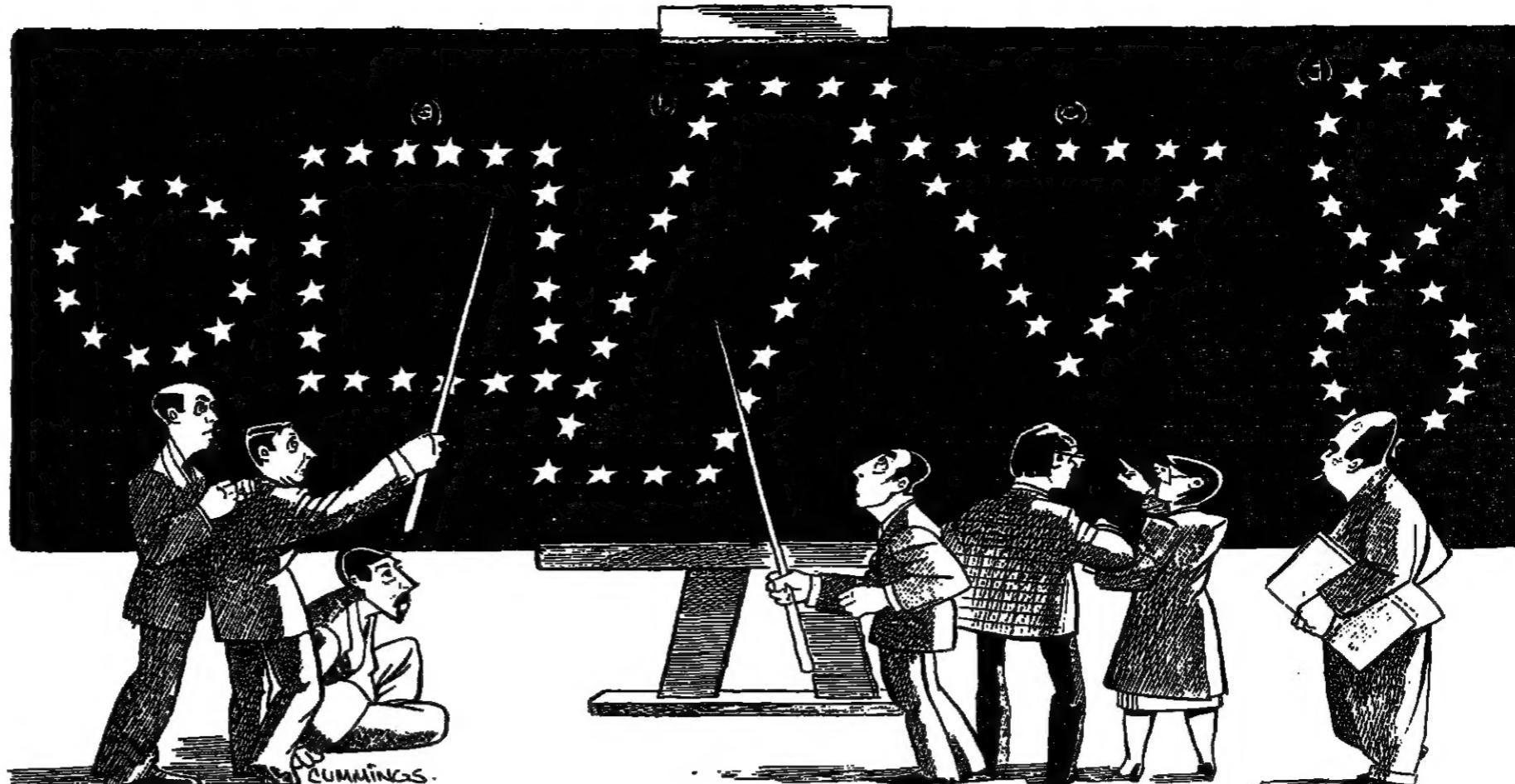
The rationale for the deal is that both institutions are under ferocious competitive pressures in their traditional markets. The costs of each are largely fixed, squeezing returns. Halifax, which is due to convert to a bank next year, has reckoned, like its rivals, that there will be little growth in the housing market over the next few years. It has looked instead to diversity, within the long-term savings market. It plans to distribute Clerical's products through its own retail network, and to gain access to Clerical's contacts with independent financial advisers, who supply 90 per cent of Clerical's business.

Its hopes of synergy may be realised. But integration of two distribution networks, let alone two cultures, is not easy. It is striking that some of the most successful cases of banks owning life assurance companies have not resulted from takeovers. TSB has had notable success in selling its home-grown life assurance to its existing banking customers. Attempts to build bridges between established insurers and deposit-taking institutions have often been less successful.

The takeover - together with the rush by many groups to render their mutual status - also raises deeper questions about rights to mutually-owned reserves. At present, holders of with-profit policies have claim to the reserves. But in such deals, there is worryingly little transparency about the allocation of surpluses in the fund between present policyholders and future shareholders.

It is almost impossible for policyholders to establish the value to which they are entitled. That is simply one of several legitimate complaints: policyholders frequently suffer large penalties if they want to terminate a policy prematurely, even on the grounds of poor performance.

In the case of Clerical, policyholders may simply have to accept the group's indications that this deal was the most financially attractive option available. It would have been preferable for them to have the information to make that judgment themselves.



## New shapes in the stars

Changes in EU decision-making and institutions will be on the agenda at the Turin conference that opens on Friday, says Lionel Barber



On Friday, in a refurbished factory in Turin, the 15 heads of government of the European Union gather for the ceremonial launch of negotiations on the future shape of the EU. The intergovernmental conference, likely to last at least 15 months, will review the operation of the 1991 Maastricht treaty, signed in a mood of near-euphoria after the fall of the Berlin Wall.

The conference is billed as an equally historic opportunity to shape Europe's future for the 21st century, but the outcome is likely to be less momentous. The public attitude to the Union has turned sour as unemployment has risen beyond 20m and most observers in Brussels believe it is premature to put judgment on the treaty - let alone contemplate far-reaching revisions.

The treaty was the result of an elaborate compromise between the UK, France and Germany on the shape of the EU. A fixed timetable was agreed for economic and monetary union (EMU) by 1999. The European parliament extended its powers to block or amend EU laws. But at Anglo-French insistence, matters of internal and external security remained subject to loose co-operation in the movement between national governments.

However, monetary union among the stronger western European economies - alongside enlargement to admit the countries of eastern and central Europe - will dramatically sharpen the sense of diversity inside the EU. Calls are increasing for new, more flexible forms of integration: the EU's structures have changed little since the six founder members - France, Germany, the Benelux countries and Italy - created the original European Community in 1958.

Two issues are likely to be central to the discussions at the intergovernmental conference. The first is whether to anticipate the impact of monetary union and enlargement

## • OBSERVER •

### Crumbs at the table

something, at least a cup of tea. No such luck: not even a biscuit.

#### Noblesse oblige

■ Queen Elizabeth II arrived in Warsaw yesterday for the first visit to Poland by a British monarch. Her domestic experience of dealing with difficult customers might come in handy.

Lech Wałęsa, Poland's mercurial former president and Solidarity leader, has already refused a royal invitation to a banquet today at the Bristol Hotel.

Not that he's got anything against Britain's Queen - just that going would require him to shake hands with Polish president Aleksander Kwaśniewski, who beat Wałęsa in last December's presidential election. Wałęsa is not yet in the mood for such a gesture.

The Queen's protocol aides have instead agreed that she will see Wałęsa privately at tea time today - a gesture reminiscent of the bad old days, when official visitors saw the (communist) authorities in public before discreet meetings with the (opposition) opposition.

A further tricky protocol problem concerns Józef Oleśky, the former prime minister who resigned last December after being accused of having been a spy in the pay of the Russians.

He's now head of the former communist SIRP, which leads the ruling coalition. If the form was being followed, he might have anticipated an invite to

#### Gordian knot

■ OTE, Greece's telecoms monopoly, has been polishing its image ahead of this week's flotation of a chunk of its equity on Athens' stock exchange.

There's been an advertising

post-Maastricht Europe is dancing to a very different tune. No one talks any more about a United States of Europe. The supranational European Commission is in retreat. The nation state lives on.

The British attitude towards reforming decision-making on internal security is minimalist - as is the government's general approach to the conference. Mr Major's goal is containment. No extension of majority voting, no new powers for the European Parliament; no more EU-wide areas of responsibility.

The maximalist camp is led by Chancellor Kohl. He views Maastricht as an unfinished symphony, a prelude to the creation of a full-blown political union which will accompany monetary union. Both arrangements, he insists, are necessary for anchoring a united, democratic Germany in Europe.

Mr Kohl's prescriptions are a stronger European parliament to act as a democratic counterpart to the decision-taking Council of Ministers. He wants more majority voting as a matter of principle to pave the way for enlargement to central and eastern Europe. Germany's strategic imperative.

On internal security, Germany wants a "single integrated space" which would guarantee freedom of movement of EU citizens, while forging a joint approach among member states on asylum, visa and immigration matters, as well as beefed up co-operation against terrorism, organised crime and drug trafficking.

Most member states agree with Mr Kohl's argument that the area of internal security needs an overhaul. Other ideas for achieving this include reducing national veto rights, giving the European Commission a role in proposing changes, and creating new legal instruments to replace cumbersome international conventions which take years to ratify.

The British, however, take a fundamentally different view of European integration. Mr John Major, UK prime minister, argues that

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campaign for more flexible forms of integration. Mr Major himself set out the case for so-called "variable geometry" in a speech at the University of Leiden 18 months ago. Since then, France, Germany, the European Commission and the Benelux countries have accepted the idea of certain countries moving ahead of the rest to co-operate in certain select areas as a means of avoiding paralysis in decision-making in a wider Union.

This approach has already been adopted in conceding Britain's opt-out from the social chapter of the Maastricht treaty covering labour legislation. And ten countries in the Schengen grouping have scrapped border controls between them.

However, those involved in the preparation of the conference agree the EU would fragment if variable geometry were extended to certain core areas. These include competition and environmental policy, the single market; and the "four freedoms" covering movement of goods, capital, services and people. There is also agreement that where some countries move ahead of others, they should be required to use the EU's present institutions rather than forming separate clubs.

But within these constraints, new ideas are circulating to create a "pioneer system", where groups of countries could begin to work more closely together without being held back by others. The Germans are floating "constructive abstention".

One senior Brussels official predicts that Britain's partners will then simply negotiate among themselves, waiting for a more amenable administration after the UK general election, to be held at the latest by May 1997.

The Major government is a hopeless case, a bit like a dying patient in a hospital," says one Brussels diplomat. "You can give him as much booze and cigarettes as he wants - it won't make any difference."

Like others, he is careful to avoid placing too many hopes on a change of British policy under the new Labour government led by Mr Tony Blair.

In the conference negotiations, much is likely to depend on President Jacques Chirac of France, who has been sending flirtatious signals across the Channel to the British. His mercurial brand of neo-Gaullism makes him a more unpredictable partner for Mr Kohl than former President Mitterrand. But Mr Chirac's interest in the British connection looks more like an attempt to placate Eurosceptics in his own party than a fundamental break in the Paris-Bonn axis.

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Judges to review controversial language ruling

## US Supreme Court to probe English-only law

By Patti Waldmeir in Washington

The US Supreme Court yesterday stepped into an election-year controversy by deciding to examine whether it is constitutional for a state government to demand that its employees speak only English while working.

Like flag burning, the "Official English" battle is largely symbolic. But it has raised high passions in the election campaign, with both Senator Bob Dole, the presumptive Republican presidential nominee, and his only remaining challenger, conservative commentator Mr Pat Buchanan, arguing that English should be declared America's official language.

The Supreme Court will decide on the constitutionality of an Arizona law which bars any language other than English by state employees performing official duties.

The law was challenged in federal court in 1988 by a bilingual state employee who said it pre-

vented her from speaking Spanish to Spanish-speakers when performing her job of handling medical malpractice claims against the state.

A federal judge ruled that the Arizona "English only" measure, approved by voters in 1988, violated free speech rights under the US constitution's first amendment. His ruling was upheld by a three-judge panel of the US appeals court.

The full appeals court voted 6-5 last year to strike down the law, saying it "obstructs the free flow of information and adversely affects the rights of many private persons by requiring the incomprehensible to replace the intelligible."

The Supreme Court will now review that decision, after an appeal was filed by a group called Arizonans for Official English.

Arizona's law is one of the most restrictive but not the only official language law on state books. At least 30 states have constitutional amendments or

laws designating English as the official state language.

The "official English" campaign taps the same vein of economic insecurity and resentment mined by Mr Buchanan's campaign for the Republican nomination.

Some Americans who feel threatened in their jobs by foreign competition have chosen the issue to demonstrate their anger, while others use it to show their resentment at measures, including affirmative action, which favour minorities over white males.

Opinion polls show that Americans perceive themselves to be besieged by minorities and immigrants out of all proportion to the actual figures. Figures published in the New York Times show that many white Americans believe less than half the population is white, whereas the true figure is 74 per cent. Many whites also believe that a quarter of the population is black, whereas the true proportion is half that.

## Murdoch's Star TV targets Chinese market

By Tony Walker in Beijing and John Fiddling in Hong Kong

Mr Rupert Murdoch's Hong Kong-based Star satellite television service unveiled a new broadcast network yesterday aimed at improving its access to the Chinese market.

But Beijing officials were sceptical about Mr Murdoch's latest attempts to secure a stronger presence on the mainland, where he has been frustrated in his efforts to develop a subscription cable television service.

A representative of China Central Television, the state broadcasting organisation, said Chinese TV regulators had "no knowledge" of Mr Murdoch's plans with its Hong Kong partners for a new service.

Star TV said its three-party venture, to be called Phoenix Satellite Television Company, would operate Chinese-language commercial satellite services across Asia.

Star TV and one partner, Today's Asia, would each hold 45 per cent equity in the venture. China Wise International, the third partner, would account for the remaining 10 per cent.

Media analysts said it was not clear whether Star TV's tie up with its Hong Kong partners would advance its ambitions in China. It is trying to persuade the authorities to grant Star TV access to China's rapidly expanding subscription cable services.

Star TV is losing about \$100m a year and is finding advertising revenues thin for its Asia-wide services. It sees cable subscription, especially in China, as critical to halting losses.

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